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Cover Photos from General Motors

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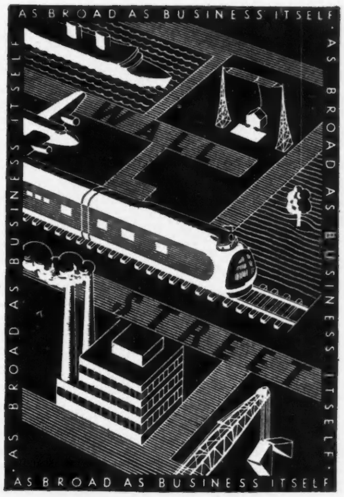
This curiosity is a montage of pictures suggesting the preparation of food, from the mixing of the dough to the doughnuts and coffee. Actually, these are some of the processes through which Westinghouse Electric makes—well, "dough" is still the word. That's what corporations are in business to make. In various articles in this issue we take a close look at the "dough"-making prospects of several dozen prominent companies in various lines of business.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* — Laurence Stern, *Managing Editor*



The Trend of Events

OUTFLOW OF GOLD BEGINS . . . For the first time in a decade the United States is losing gold, on balance, continuously and in noticeable amounts. During the last four months the loss exceeds $250,000,000, and if it continues at that rate for a year, it would go far to redistribute gold stocks. Several conservative economists have raised a cry of alarm concerning the reversal of trend in gold movements. They argue that the United States is not being paid for its war exports, but is paying for war imports, and hence the one-sided arrangement may end by denuding us of gold and assisting in undermining our credit base, by reason of our very generosity.

Actually, they exaggerate the situation. It is true that we are paying for war imports, but we are not paying altogether for war services nor for supplies given our soldiers by the British and Australians in their respective countries. While the balance is overwhelmingly on the American side, there are impressive offsets.

Again, we are paid in cash for the exports we make to the Latin American countries: by reason of the war we import more than we export and re-export to them, but on the two-way relation, as far as they are concerned, the game is carried on correctly. It has been urged that the United States may be drained of its gold when the time comes for alien interests to claim over $7 billions in assets at the conclusion of hostilities, and that this will begin a deflationary trend that the country can ill afford with its enormously increased debt.

But here national policy could be less accommodating. It is one thing to redistribute gold because of ordinary trade balances, or by the granting of productive credits; it is another thing to deliver it without question to creditors who are nationals of countries which are heavily indebted to us, and which have made no arrangements for current payments on that volume of debt.

WHEN ARE SAVINGS INFLATIONARY? . . . The Securities and Exchange Commission presents dramatic figures concerning individual and corporate savings for the first quarter of 1943. It appears that after the payment of increased taxes on the Ides of March, the total savings were $9.9 billions, which is nearly equal to the record high of $10.5 billions in the fourth quarter of 1942. In the one case, Christmas spending did not absorb savings, and in the other taxes did not.

An analysis of the figures, however, seriously diminishes their inflationary portent. In the first place $3.5 billions of this total were corporate cash and deposit increments. Considering the costs of reconversion, which come nearer as the war develops, such liquid provision, instead of being an inflationary item, will help arrest inflation by permitting of easier capital changeover and requiring smaller reliance on government assistance in the transition period. Of the $6.4 billions resulting from individual savings, $700 million went to the reduction of debt other than mortgages. As this payment proceeded

from a debtor group to a creditor group, it passed from easy spending hands into natural accumulating sources; and so cannot be added to the amount available for consumer outlay but, rather, acts against it. Of the remaining $5.5 billions, $2.6 billions went into government bonds, and this was before the $13 billion offering of the Treasury in April! Here the excess purchasing power was definitely limited by the patriotic subscriptions and also **$800** millions went into life insurance in the first quarter. These savings are available for future capital outlays in the shape of housing by the insurance companies and are taken out of the possibilities of excess demand for present consumer's goods. There remains $2.1 billions available for consumption demands, should the savers desire to use it this way. But as not all savings are tempted into such channels, this figure is too large for inflationary possibilities. It is rather that the excess of savings faces a shrinkage of 36% in department store inventories, which constitutes an inflationary convergence.

WHAT IS LEWIS UP TO? . . . A considerable portion of the press affects to consider the petition of John L. Lewis to enter the A. F. of L. as another dark and devious maneuver of that tortuous and vicious mind. It is perhaps the simplest trick which he has ever attempted. He had to face an absolute showdown on the mine strike at the end of April. He blustered and then parried by shifting the showdown date to May 15. Faced with unrelenting War Labor Board resistance, he postponed the showdown once more. He was on the point of losing prestige forever. There was no out, in the older sense of bringing the United States to its knees.

He retreated at first under the cheap verbal camouflage of epigram and sneer. But these were not sufficient to take off the certainty of defeat and humiliation. He then did what every shoddy machine politician does: he joined the "organization" so as to retreat under its cover. If the A. F. of L. yields to the Administration, it was not he who surrendered, but a force commanding ten times his following.

In this way he becomes the dominant factor in the A. F. of L., and retains his prestige as mine leader. For this reason, he coolly offered his 650,000 miners (without even the formality of consulting them) as mere commodities to be delivered by their serf-owner to the A. F. of L.

Lewis knew that this offer would please the vanity of his intended victim, Green, whom he despises while utilizing. Instead of destroying Green from without, the Trojan Horse has moved inside the A. F. of L. The ganging up of the isolationists and strike-action group against Green will soon deprive the present head of the A. F. of L. of his temporary "triumph."

The pro-strike groups in the C.I.O., greatly encouraged by the action of Green in welcoming Lewis, are raising their heads in Detroit, and provoking walkouts, to test the authority of the leaders of the United Automobile Workers, who rigidly adhere to the no-strike policy for the duration.

But the fault is not all Lewis's. What sort of men are these who have truck with a man like Lewis who has repeatedly shown his contempt for his government and who is openly callous to the war effort? There is a corruption in the A. F. of L. that goes much deeper than the innumerable racketeers who fill its ranks. Unless labor unions are regulated in an impartial fashion, as the I.C.C. regulates railroads, the reaction against the corruption and civic cynicism of certain labor leaders may lead to repressive legislation that can only lead to a further embittering of a country that needs unity for victory.

ONE HUNDRED BILLION . . . Recently an obscure item, without a feature headline, noted that the Senate had approved of an appropriation of a mere 29 billions to the Navy for the fiscal year. On another day, a still less conspicuous and routine news item advised us that the House was to pass, without effective debate, appropriations of about 71 billions for the Army for the ensuing fiscal year. Not only were such triffling sums not fit to be displayed on the front page, but they were apparently not significant enough to call for extensive debate in Congress. How easy it was to vote 100 billions, and yet what months of wrangling over the taxation to provide it, no not to provide that amount, but not even a sixth of that sum! To those who recall the hue and cry over the billion dollar Congress of the Benjamin Harrison administration, the contrast brings some pertinent reflections.

It is too glibly assumed that because the life of the nation is at stake, and therefore no price is too much to pay for freedom, as a corollary, the sums so expended are not worthy of great scrutiny. No price is too much to pay, true. But waste is too high a price, should it fail to achieve the object, which is that very national security.

It is true that the military and naval authorities know better than civilians what expenditures are required. But it is also true that the control of the purse is a jealously guarded prerogative. Once that vigilance is lapsed, the very freedom which it is the object of the armed forces to defend from outside aggression may be diminished internally. During the Civil War, for the first two years, Congress lavished upon the military outlays almost every dollar requested. Then the Grand Committee was formed, and Congress, by its co-operative but searching enquiries, enormously increased the productive military use of its appropriations. Later, at the instigation of Salmon P. Chase, the Robert Dale Owen committee in Congress, by consistent enquiries and excellent husbanding of resources, weeded out waste and graft, and was a factor in victory much appreciated by Lincoln. Care in expenditures leads to the kind of mentality which examines taxation from the viewpoint of sound finance: they are obverse and reverse of the same coin.

As I See It! BY CHARLES BENEDICT

HITTING THE LINE IN THE PACIFIC

IN analyzing the brilliant and interesting speech of Winston Churchill, one cannot fail to believe but that we can count on him to the utmost. Unfortunately, however, Mr. Churchill is not immortal, nor do we know the temper of those who will come to power after him. The question arises, therefore, when the war has been won in Europe, whether those interests may not believe that the war-weary British people should take a rest from the years of bitter strife, and turn their efforts rather towards the processes of peace. This would be a most natural reaction after the suffering and the personal sacrifices endured by the entire nation in this titanic struggle.

Regardless of what Mr. Churchill says about the humiliation to which Japan has subjected the British people, he is a realist, and when the war against Hitler has been won he will undoubtedly, under the pressure of the strong will of the opposition lying low at the moment, be obliged to make various compromises if he is to remain in office. We already know that certain of his aims and plans do not agree with the ideas prevailing in important circles. Then too, a Britain no longer fearful of invasion would respond differently from the besieged Britain we know, and might readily be influenced against Mr. Churchill, with whom there has not been entire agreement, even though a majority have supported him fully in the great war effort.

Because of these possibilities we cannot afford to take the risk of waiting or marking time in the Pacific, nor must there be any hesitation now in taking the steps essential to the security of these United States which is our main responsibility. For unless we can protect our own shores from enemy attack we will have served ourselves ill and the tremendous sacrifices will have been made in vain.

It is not a question of diverting our forces and diluting our activities as some would have us believe. It merely means the stepping-up of our effort in the Pacific—an intensified campaign especially in supplementing what we and the British are doing—particularly in China. It is what General Chennault came here pleading for, and what General MacArthur has urged so continuously. Moreover many experts have expressed the belief that only one thousand planes would enable Chiang Kai-Shek to break the Japanese grip and upset their schemes so as to give China a respite and even a chance to prevent further inroads along the fertile Yang-Tse valley. Here a Jap victory would deprive the Chinese of essential foodstuffs and force them back into the mountainous and barren hinterland, with but a precarious access to relief. With China shut (*Please turn to page* 214)

United China Relief

Generalissimo and Madame Chiang Kai-Shek at home in Chungking.

The Wisest Investment Policy Now

Considering New War Factors in the Market Outlook and the Changed Character of Demand for Common Stocks

BY A. T. MILLER

PART I

In the first week of May the Dow-Jones industrial and rail averages penetrated their previous recovery highs—which had been registered in late March and early April, respectively—and did so with volume surging up well above the 2,000,000-share level. The technical "signal" was clear-cut. On orthodox trading principles, one could only go on the assumption that a new phase of advance had begun.

But after having bettered the March high by slightly less than 2 points, the industrial average—which is representative of better-grade stocks and which thus moves rather closely in line with this publication's weekly index of 100 high-price stocks—promptly faltered. Instead of gaining quick momentum on the upward break-through, the reverse was true. By May 14, a week later, the average had slipped back to the top March level—and in the seven-week interim some 55,000,000 shares of stock had changed hands.

In the forepart of last week, this most popular of all market averages appeared to get going on the up-side again. Leadership of "pivotal" stocks was the best in many weeks. A new recovery high was made on May 19 at 139.15 (closing level); but volume was substantially lower than that attained on the two previous moves to new highs, and after just two days of brisk advance symptoms of "tiredness" once more were evident.

In short, the quality stocks on the average, at recent best level, had bettered the May 6 high by a small fraction, the March 30 high by 2.33 points and the high of November, 1940, (considered by many as a significant resistance level) by 1.03 points—yet continued to find the going quite laborious.

In may well be that the industrial average can succeed in the near future in gnawing its way more decisively through the 138-140 resistance level and thence "into the clear." If there is a further phase of important rise ahead, we agree that it logically should have leadership by stocks of good to fair quality, since one can hardly expect low-price stocks to continue to dominate the bull market as overwhelmingly as was the case until quite recently.

But not so very far ahead—as major movements go—there is a much more formidable technical resistance level than that of 138-140. It is the area 145-155 within which the Dow industrial average spent nearly six months in trading-range fluctuation between the autumn of 1939 and the German smash into the Low Countries and France in the spring of 1940.

The possibility of 6 to 12 or more points rise over the relatively near future may be intriguing on a trading risk basis—but we think the time has come to put much increased emphasis on the risk element so far as new purchases are concerned.

We are now only a little way from the mid-year mark of 1943. The market for a great many months has been operating in an environment of news developments either favorable in their impact upon investment and speculative sentiment or, otherwise, negative. We must bear in mind that the market's reaction to news—good or bad—is always importantly conditioned by its basic technical position. The market is always looking ahead—discounting ahead. In the long decline which culminated last April, it discounted a host of adversities and fears; which is why it was able to ignore exceedingly gloomy war news which continued for some months after bottom had been made in prices.

Now the market has been discounting the optimistic side for more than a year, without a single important set-back. It seems to us common sense to figure that it will be less responsive to favorable news, and more vulnerable to unfavorable news, at 140 or 145 or 150 in the industrial average than it was at 100 or 110 or 120.

There is a big speculative position in this market. True, it is not on margin except in small degree. But it is nevertheless speculative in that it consists in unusually large degree of low-price stocks which have been bought for profit. Scores of these stocks are up 75 to 100 per cent since the start of this year, some much more than that. Many of these profits could soon be realized, subject only to a net tax of 25 per cent under the six-months dividing line for "long term gains." Probably most of these holders are simply "riding along" with no timing pattern in mind, but if in coming weeks there should be news developments importantly unsettling to the market, the combination of such developments with the ability to cash large percentage profits at minimum tax liability would undoubtedly convert numerous speculative "long term" holders into sellers.

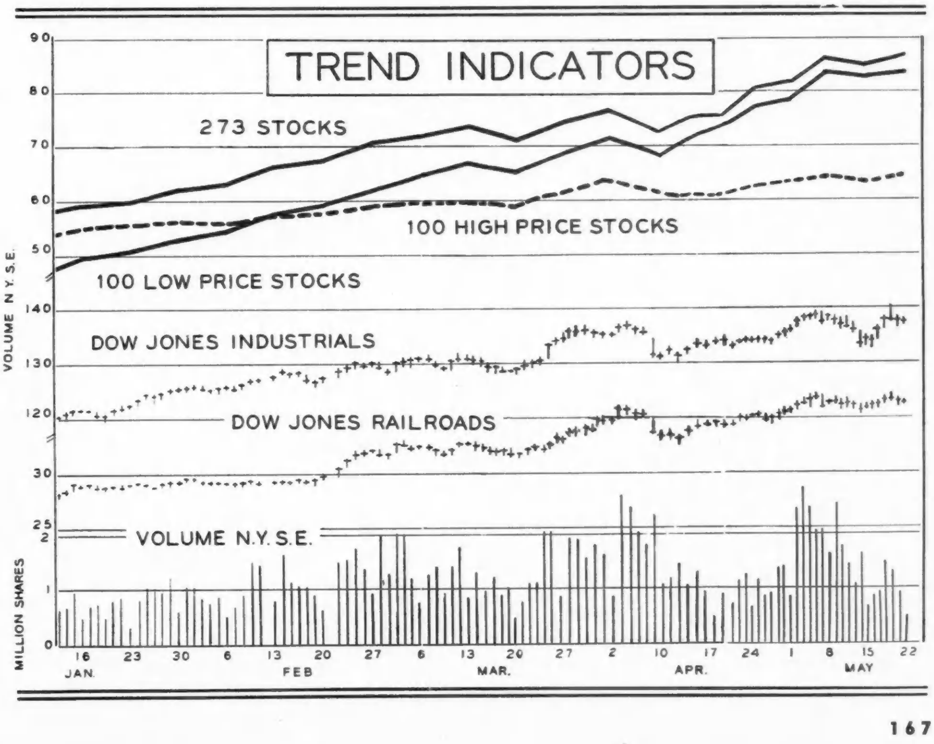
We said above that if there is another phase of general market advance this spring and summer, we would expect it to need greater participation by better quality stocks than it has had in recent months. At this writing the evidence that such leadership is beginning to appear is quite tentative and none too strong. This may, of course, change; but right now relatively few stocks of "above average" quality are among those making the new highs, and the daily list of the 15 most active issues continues to be made up overwhelmingly of low-price speculations.

On the whole, the type of individual who leans to good grade stocks is less inclined than more speculative types to "follow the crowd" or to be stampeded into buying by volume "penetrations" of particular resistance levels that traders put such store in. As indicated by the modest and sluggish advance of the Dow industrial average and of our weekly index of 100 high-price stocks in recent weeks, such individuals, on balance, have been disinclined to "reach" enthusiastically for stocks. Can we assume that they will now look upon the market's prospect for the summer and for the second half of the year more bullishly than they have regarded the potential so far this spring? It remains to be seen.

It seems logical to us to believe that war developments suggesting probable early defeat of Germany would have importantly unsettling effects upon the market. The backbone of the bull market is confidence in victory and confidence in the politico-economic fruits of the peace that willl follow victory. For about 13 months the market has been discounting victory and post-war earnings potentials—not war-time profits. You don't see Savage Arms—yielding over 11 per cent on present dividend rate—, or other issues regarded as "war stocks," under active demand. It has been essentially a war-time bull market founded on peace prospects.

When peace comes within sight, "peace stocks" and "peace or war" stocks—the rough classifications making up the bulk of the list—will have discounted peace-time business prospects sufficiently far ahead to make important reaction inevitable, in our view. At present, of course, neither the timing nor the actual severity of that reaction can be forecast.

"Expert" opinion on the timing of defeat of Germany still runs a wide gamut—but there is nevertheless a general trend toward much increased optimism, toward downward revision of earlier guesses as to how long Germany might hold out. Today the most pessimistic "expert" is he who says that collapse of the Nazis is highly unlikely before next spring and may not come before autumn of 1944. Some, who have most clearly foreseen the general course of the war to date, now think collapse of Germany by this coming autumn is a better than even bet.



We have no firm conviction on this matter, except to feel that the evidence developed by military action this summer—probably beginning within a very few weeks—will have a decisive bearing upon it; and that thus the fore-ordained collapse of Germany probably will cast its shadow on the market some weeks, or even several months, in advance of the actual event.

It is just as well, we think, to be skeptical of the idea that the logical-minded Germans—dominated by the Prussian military mentality—will fight to the last man after all hope of staving off unconditional surrender has gone. They quit last time before the ruin of their nation was complete, retaining a basis on which future power could again be built.

If Germany suffers a major disaster on the Eastern front this summer—represented by its third all-out offensive against the Red Army, as Churchill predicts, and by its failure—the war, in our view, would be as good as over in Europe and actual peace *might* come by October. To salvage something out of a peace would appeal overwhelmingly to large and powerful elements in Germany. The larger the role of the United States and Britain in effecting peace, the better for Germany (in this view); the larger the dominance of Russia in the outcome, the worse for Germany. We begin to wonder whether the fighting on the Continent by British and American invasion forces will be as bloody and long as some have predicted!

On the other hand, if Germany elects to go really on the defensive, foregoing any offensive in Russia this summer, there would be considerably less chance of defeating her this year. In that case, the summer "peace scares" would be secondary, rather than decisive, in market influence. Only time can tell us.

As we said two weeks ago, the market's technical action does not provide a "get out right now" signal. On the contrary, the *current* evidence of the strength of buying demand, versus willingness to sell, is still bullish even though a bit "subdued." However, and this is something still tentative, *for the first time since the major advance began over a year ago* certain background technical indications on the most recent advance were less favorable than the performance of the averages, whereas the reverse had been true without exception on previous advances to new highs.

Market Record of the 30 Individual Stocks in the Dow-Jones Industrial Average

CLOSING PRICES	High Nov., 1940	Low 1942	Dec. 31, 1942	May 21, 1943
Allied Chemical	174	118½	145	159½
American Can	95½	56⅝	71¾	83⅝
Amer. Smelters	48⅞	35½	37	42½
Am. Tel. & Tel.	167¾	101¼	127⅜	153
Am. Tobacco B	76	33½	43	56⅛
Bethlehem	93¼	49½	56¼	64
Chrysler	86¼	43⅞	67⅞	75
Corn Products	47⅜	42¼	55⅝xd	61
Du Pont	172	102¾	134½	151½
Eastman Kodak	144¼	108	149½	168
General Electric	36¼	21½	30½	37⅜
General Foods	38½	23¾xd	35⅝	38⅝
General Motors	54¾	30	44⅜	52¾
Goodyear	19⅝xd	10¼	25⅞	37⅛
Intern. Harvester	56¾	40	59⅝	66
Intern. Nickel	28⅞	24⅛	29	32⅞
Johns-Manville	67¼	50½	72¼	85⅜
Loew's	30¼	37	46	58⅞
Nat. Distillers	23¼	17⅜	25¾	31⅜
Nat. Steel	72¾	43¾	52	59⅛
Procter & Gamble	45¼	42	49	55¼
Sears Roebuck	80⅝	43½	61⅞	72½
Standard Oil Cal.	20⅜xd	18	29¼	39
Standard Oil N. J.	38	30½	46⅛	56⅜
Texas Co.	40¼	30	41½	49¾
Union Carbide	76¾	58	81	84¾
United Aircraft	47	23⅞	25½	38
U. S. Steel	76½	44¼	47¼	55
Westinghouse	109¾	63⅛	81¾	95
Woolworth	36½	17¾	30⅞	38⅛

In Summary:

Summarizing the pros and cons cited heretofore, we think the short-run market outlook is more favorable than otherwise but we are inclined to view it distinctly as a trading-risk proposition, and therefore to advise caution as regards new purchases for either intermediate or longer-range investment purposes.

PART II

A bull market is made by human beings. Especially in view of the active demand for low-price speculative stocks over a period of many months, we have felt it important to inquire into the question of just who has been doing the buying. Also who has been selling. We have not, of course, made a statistical poll. Buyers and sellers are naturally very diverse. But we believe the general evidence to which the rest of this analysis is given over is both accurately indicative of the character of the market and important.

There are not simply "buyers," there are two kinds. The low-priced share buyers are a wholly different category from those who think in shares above $25. Certain classes, once active, are no longer so important. The professional classes, whose incomes are fixed (relatively) when cost of living and taxation are considered, are not very active. They are a more studious group, who, on the whole, go by past record rather than by large expectancy.

A great deal of the buying of shares above $25 went on very quietly during the summer of 1942 by professionals, by foreigners who sensed a turn, and, after the elections last November, by those who took advantage of the increased conservatism of Congress to base long-range buying on the assumptions that the worst fears were now dispelled. This group, on balance, is no longer buying. It has accumulated income-payers at a remarkably low price: it has excellent yields, and if it sells at all, does so when it feels that on tax calculations, it actually pays to do so. This group, then, no longer makes up the bulk of buyers.

The farmer is not in this market. It might be thought that with farm cash income at a new high, he would re-enter. But he prefers to buy land, which is advancing at about 10% per acre in cash crop belts. Nor does the war-enriched worker count for more than a trifle. His pants pockets may be full

Net Change in Price of Selected Stocks Since Jan. 30

	Per Cent		Per Cent
Allied Chemical	+ 5.4	Baltimore & Ohio	+140.0
American Can	+ 6.3	Am. & Foreign Pwr.	+168.0
Am. Tobacco B	+10.5	Elec. Bond & Share	+204.0
Corn Products	+10.0	National Supply	+ 90.0
DuPont	+ 5.5	Northern Pacific	+106.0
Eastman Kodak	+ 7.7	Pittston	+147.0
General Electric	+10.0	Radio	+ 79.0
General Foods	+ 5.0	Reo Motors	+ 85.0
Union Carbide	+ 5.0	Intern. Tel. & Tel.	+ 98.0
Woolworth	+13.0	Willys-Overland	+128.0
AV'GE (per cent)	+ 7.84	AV'GE (per cent)	+124.5

of new money but the gambler instinct in him is still immediate, that is, he depends on the spin of a wheel or the fall of a card or the throw of a dice or the fleet foot of a pony.

It is not from that source that buying is coming. Nor does it come from the harrassed retailer, who, in a welter of ration accounting and cost headaches, has his mind elsewhere. The light loft manufacturers in large cities, however, and jobbers in goods not too much controlled, are in the market and are buyers of middle ground securities, usually those dealing in goods they understand. But they are a minor factor.

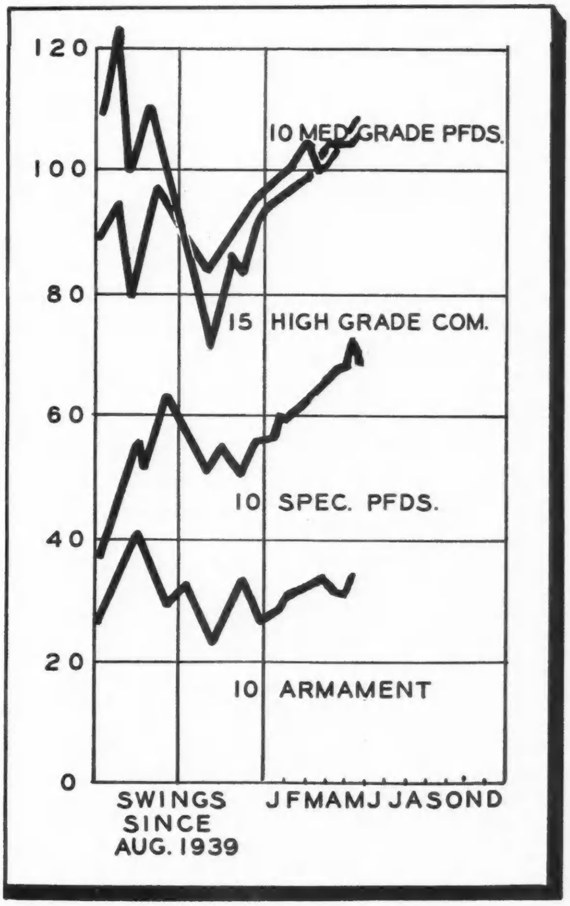
Heavy buyers of manufacturing stocks are found among war subcontractors and small parts manufacturers. These men think their prosperity temporary and want added income. Some of them put part of their money into cheaper shares, but not many.

The cheap shares group is far more numerous than all the above: a majority are true gamblers, that is, they are rather indifferent to the intrinsic value of what they deal in, and seek only "fast movers" for large percentage profit. Yet these buyers go in very little for margin trading. They have a vigorous memory of 1929. In fact, 1929 and 1937, still haunt the market. SEC regulations permit 40% margins, but few want to trade even that thinly. Hard cash is king. In the first place, no one can buy stocks on margin that sell below $5. That accounts for the frantic effort to push so many stocks from $3 to $6. The speculator argues that he pays cash, has comparatively little company on the buying side. But once his stock gets above $5, then he has plenty of company who can trade on margins and once it gets that second hard push of buying, it can be ballooned to $10. To get cheap shares over the $5 hump, is the object of these enthusiasts; for then they have a double play. This is one of the technical reasons why shares that sold, a year ago, for a tenth of the price of first-class shares in the same industry, now sell for a third, despite the fact that they are not even fit to be mentioned in the same breath. That is why, relative to the market, meritorious stocks are steadily becoming cheaper.

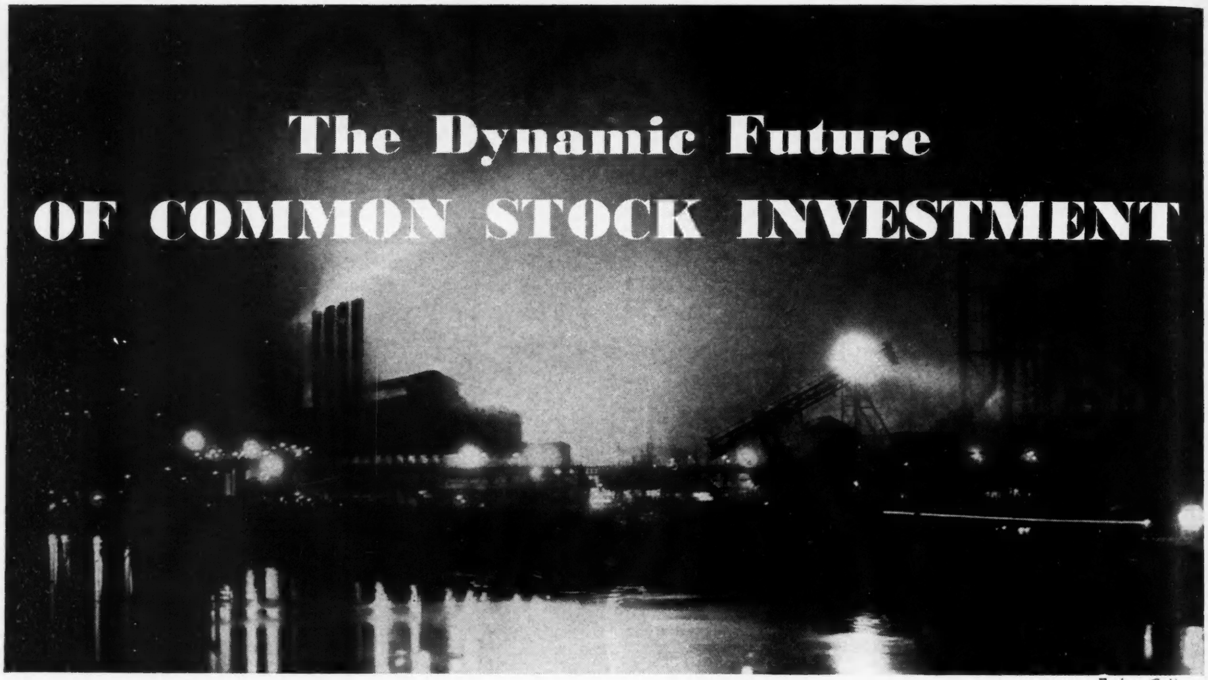
Who thinks in this quaint way? First, the worst market fringe. Painful as it is to say it, the "bookie," the race-track tipsters and wire-men, are in the very lowest sections of the market. In some cities, like Newark and Boston, they are big factors. They are fed with betting money from millions of war workers. Thirty thousand people will attend the "track," today, where ten thousand did two years ago, and this without cars! That "bookie" money is being placed on three dollar "ponies" in the stock market, and is the least meritorious and most dangerous part of the picture. Fortunately, it is "peanuts" in total money compared to the market value of the great, constructive companies who make our real wealth and who will provide the weapons of war.

The second cheap crowd are the shoals of foreigners with small money, who are pursued by the demon of inflation. They are poor. They have seen currencies go to pieces in Europe. They think like automata (in their utter ignorance of American productive capacity) that an uncontrollable inflation must also set in here. They cannot buy dear stocks because they haven't the money.

A third group, well-to-do foreigners from the enemy countries, buy better stocks for income and for longer term appreciation. These men are fearful of the Alien Property Custodian: they dread to keep their money in banks, for they are sure it will be blocked, and so they pay cash for outright acquisition of bearer stocks, which they can put away in an old bureau, draw income, and yet have them in a position where they can- (*Please turn to page* 210)



The Dynamic Future OF COMMON STOCK INVESTMENT



Pittsburgh Steel Mill At Night.

Ewing Galloway

PART III

Fortune Building in a New Age the World Over

BY GEORGE S. KENT

THE two preceding articles in this series have alternately stressed domestic and foreign recovery, revealing their astonishing significance for the growth of profits in the post-war economy. In this concluding article, the interrelations of these two aspects of recovery, with the further drive of the new technology and the shape of the new man, throughout the world, will be used to direct the investor to a program of fortune-building for the next decade. Above man and technique, a new politics will govern: enterprise and the State will be co-ordinated in new fashion. But the premium on enterprise will rise higher than ever.

For, in sober fact, our production is pitiable. The Department of Commerce, in a recent estimate, assumes that, expressed in 1942 prices, American production will have risen from 1940 to 1946 from 97 to 165 billions (peace goods only). But this estimate projects only tendencies that were evident before 1940: it takes no account of new techniques, nor of the broadening of demands, nor of the intervention of wholly new types of demand, nor of the raising of the general level of demand, nor, (and this is most important) of wholly new classes and nations with permanently higher demands. A mere addition of 10% for foreign markets might easily put this production figure at 180 billions, which would add far more proportionately to corporation profits.

How will this affect corporate profits? Common sense tells us that road building in India would be a boon to Caterpillar Tractor and Chicago Pneumatic Tool, that Standard Oil companies will not only see foreign holdings restored but increase their distribution everywhere, that our speculative foreign utilities like I. T. T., despite temporary lack of much earning power, may still be in the cocoon stage of development. American rail equipment companies alone can count on tens of thousands of orders for freight cars abroad.

But these are temporary developments. This article deals with fortune-building, such as rewarded pioneer investors in harvester and oil companies. The electric refrigerator is the central showpiece of Cuban *parlors*, and this indicates that Servel, for example, may have only begun its earnings history. The tropics which require refrigeration have ten times our population: if they have a tenth of our consuming power per capita, Servel earnings could more than double. The enquiries from Rio and Singapore for air conditioning might change Carrier Corporation from a dwarf into a great company. Mack Trucks could quadruple their business with ease when the China highways come into being. Ulen & Co., once we add to Africa port facilities,

could be busy for years. Airport construction is certain to increase ten fold in the next decade, on a world basis.

American textbook companies, such as American Book, using foreign language technical manuals, have great possibilities. That Readers Digest now prints in French and Spanish is a straw in the wind. That we have sent engineers to install 100 millions in industrial equipment in South America is an open secret.

History has already spoken more eloquently than theory. From 1937 on to 1942, markets were in the doldrums. The profit incentive was weak. Men with keen economic sense saw themselves relegated to the background: practical experience in production, trade and finance was at a discount, and to use the eloquent phrase of Edmund Burke "the age of sophisters, economists and calculators" was dominant.

Revived Enthusiasm for Profits

Today markets are thriving and advancing in every part of the world; the enthusiasm for profit has rearisen. No such profound change in men's behavior is without deep meaning. It indicates that everywhere business men look forward to a world to be governed by the profit incentive. This is true in besieged Britain, in the American arsenal, in assailed China, in subjugated France, in the investment boom in South America. Money, despised by the theorists as a barrier to social production, is again enthroned as the one organizing concept that has created wealth in the past and will do so even more in the future.

The wonders of production in the war have shown what vitality is inherent in the older system of free enterprise. Happily, though, this new drive for profits (even under the cloud of quasi-confiscatory taxation), is not anti-social either. If we have learned that free enterprise is central, if the taste for money (and even for gold) is rearoused, the enormous dislocations of total war, have put some social planning and controls into practical reconstruction policy everywhere. The conflict between the two viewpoints, however vocal it appears, is actually smaller than at any time since 1930.

The basic reason why these two viewpoints converge is that instinctively, business men and theorists alike, feel, even if they do not identify this, that for the first time there is room enough for both approaches. We have overrated the difficulties of capitalism because, unconsciously, we have thought of it as a mature system. Now we see that it has not even begun: that what we have had is merely pre-capitalism. A century from now, our era will be recorded in textbooks of economic history as the period in which capitalism passed from a series of experimental triumphs in a few advanced countries to its becoming the heritage of the human race.

Of the 2.1 billions of mankind, only about 500 millions live in regions with any developed industry. The very fact that 1.6 billions have so little consuming power itself reduces the production of the 500 millions. But in the so-called advanced countries, too, the great majority have had no relation to modern technique. The number of technical school graduates is greatest in Germany and the United States. Including university graduates in the exact sciences, we find that only about two million people in the world are technicians. During this war, the Navy, Air Force and Army, as well as the preparatory schools for war production for civilians, are turning out several million technicians and trained personnel.

It is impossible to correlate such intensity of mental development with a low level of demand for material goods. Education has been the great source of American prosperity. Who knows more, wants more and discriminates more. Civilization is the multiplication of wants, of the need for range in goods and in personal expression. Both are the active cause of the gains in production. All calculations of the production possibilities of our corporations that neglect these possibilities in the new man and woman, are mere dead accountant's exercises.

Before proceeding to the concrete possibilities for long-term investment, let us briefly summarize the foundations.

1. The new, highly educated, technical personnel, both here and abroad, must affect both the character of production and consumption.

2. American machinery was introduced on a scale unknown elsewhere throughout the nineteenth century, because labor was dear, and the use of machinery became economic to save this excessive cost. The great skills and high standard of living of the American worker made it important to bring out the best in his capacities, and that best was not ex-

Industrial Production by Categories for 1946-50 (Annual Averages), As Projected

(Millions of dollars)

	1940	1946-50 Average	% Advance
Construction, private	4,500	13,800	205
Construction, public	2,750	4,000	45
Total Construction	7,250	17,800	145
CAPITAL GOODS			
Railroad Locomotives & Cars	300	800	165
Mining Machinery	100	250	165
Construction Machinery	140	350	165
Agricultural Machinery & Tractors	530	1,300	160
Electrical Engines & Turbines	660	1,500	125
Trucks	1,600	3,500	120
Typewriters and Accounting Machines	160	350	120
Machinery (General)	1,420	3,000	110
Pumps	185	400	110
Machine Tools	500	900	80
DURABLE CONSUMERS GOODS			
Radios	415	1,000	140
Passenger Cars	2,400	5,000	105
Household Machines (Washing, Sewing, Refrigerating)	460	840	80
Furniture	870	1,600	80
CONSUMERS GOODS			
Food	21	30	45

Note: Based on 1941-3 average prices and assumes unemployment of 5%.

pressed by mere muscle. War education and national pride everywhere have made labor more costly, since the time-cost of training such personnel has to be paid for. Hence new machinery and more delicate chemical and electrical processes are a competitive necessity. This provides new types of capital goods investment, brought about by changing man himself.

3. Increased investment in machinery requiring skilled manipulation, supervision and selective control, itself compels companies to augment trained personnel for their construction: the installation and construction of such machinery will give altogether new dimensions to production.

4. Developments that were not utilized by large corporations because their cost was too high on the basis of market possibilities have been installed anyway because of war needs, and thus a leap has been made into a new area of intensive production that would not otherwise have come about in so short a space of time.

5. Any analysis of market possibilities that merely projects past demands and past modes of production, has hindsight but no true foresight, and, in the name of common sense, really is unscientific and underrates future productivity.

6. This is especially true of capital goods investments. Even if part of the new technical training is forgotten by some students (over-stimulated by war), the effect, on the whole, of a new level of education has always been decisive. Machine tools that require skill and science, for example, may have a much brighter future than some of the gloomy producers in this very field project today. History is full of surprises of this nature. British engineering products were repeatedly thought, by their manufacturers, to have reached dead-ends, and they were always falsified by the demand from more primitive countries as their people demanded improvements.

7. The American motor car, for example, is in its infancy, when one considers the export potential, hitherto limited by the relative poverty of the importing countries.

8. The preference of new consumers, that is persons formerly living on a poor scale and now accumulating savings, for durable, practical goods indicates that two decades of mass high school education are at last showing their effects.

9. Exports of machinery will take the place of crude immigration. Formerly the population of American stock was promoted upwards to management and ownership and professional training, because of the mass immigration of Eastern European labor who performed manual tasks. Now the children of these very immigrants are trained personnel, in large part, and the raising of the standard of the whole population, now evident, will be assured by exports to less advanced countries.

America is a Low Cost Producer

10. The United States is the cheapest producer in the world, not the dearest. Proof: every country resorted to autarky or preferential treaties with its colonies, in order to block our exports. American horsepower available per man is 2.5 times Britain's: 3 times the vaunted production of Germany, and much more than that for other nations. On a dollar for dollar basis, American labor is cheapest, for it has the largest coolie population in the world: that is, electric power units and machines. With every plan for post-war calling for free access to investment markets and raw material countries, and with the end of totalitarian autarky, our position is brighter than ever.

11. The mass of consumer savings, instead of being dissipated in a quick post-war orgy of perishable goods buying, when committed to purchases of more durable goods calls for a larger capital outlay per unit produced for this type of purchase, and hence adds greatly to mass employment. This, plus government intermediate aid policy, will aborb surplus demobilized labor much more easily even than in 1919.

12. Capital investment possibilities are not diminished by the enormous capital investment of the war years. Conversion and new construction activity, when added together, will more than offset temporary write-offs for war depletions and obsolesence, for which latter reserves are steadily being accumulated, anyway, and are already factors in diminishing earning power per share. After 1918, capital goods investment was permanently 50% higher than before 1914, despite the then lavish war expansion.

13. The long-term tendency to diminish the ratio of common labor to total labor began in the 1890's and increased suddenly in the 1920's. Both in agriculture and industry, less and less muscle is needed and more brain and skill. This is a longterm tendency in favor of (*Please turn to page* 208)

Potential Earnings Per Share of Selected Companies in Industries Most Likely to Advance in Sales 1946-50

(Millions of dollars)

	1940 Sales Volume	Ave. 1946-50	Indicated Annual Earnings Per Sh. 1946-50	Earnings Per Sh. 1940
Construction—Johns-Manville	62	190	18.00	6.35
Rail Equipment—Pullman	123	263*	4.50	1.96
Building Machinery Bucyrus-Erie	19	58	5.25	1.71
Farm Mach. & Tractors—Int. Harvester	315	765	9.50	4.10
Electrical Eq.—Westinghouse El.	239	530	14.50	7.22
Trucks—Mack Trucks	44	100	5.80	3.02
Office Eq.—Int. Bus. Machines	46	100	20.00	10.50
Machinery—Ingersoll-Rand	40	84	13.50	7.35
Pumps—Wayne Pump	6	13	6.00	3.18
Machine Tools—Warner & Swazey	19	32	4.80	3.00
Radios—Philco	52	125	3.25	1.58
Automobiles—General Motors	1794	3000	7.00	4.32
Household—Servel	22	39	3.00	1.67
Furniture—Simmons	42	75	3.75	2.33
Food—General Foods	152	220	3.75	2.77

* Carrier net projected at lower rate.

Note: Following assumptions have been made. Profit rate less than 1940 by 10%, taxation greater by 50%, prior bonds and preferred stock unchanged, and no higher margin for profit assumed because of increased volume.

The Crisis on the Home Front

Effects of New OPA Price Regulations and Subsidies on Retailing Profits

BY LAURENCE STERN

If you ask any representative group of people whether they are satisfied with the way Roosevelt is managing our war, a large majority would answer yes. If you ask the same people whether they are satisfied with the way he is managing our internal problems — especially price-wage stabilization — a majority would answer no.

This oft-heard comparison sounds plausible, as well as invidious. Actually, it makes little or no sense. The military establishment is and must be wholly authoritarian. Under Roosevelt as Commander-in-Chief, orders flow down through centralized commands; and soldiers obey. On the war fronts there are no debates, no politics, no economic group conflicts. There are plenty of all on the home front, and they will continue. To civilians of all groups, Roosevelt is merely the President and the leader of the Democratic Party—not a Commander-in-Chief or dictator. Great as are his powers, their uses affecting civilians can not be divorced from political considerations in this democracy.

Keep the Home Fires Burning

World-Telegram

Such being the basic realities, it should surprise no thinking person that we have carefully-planned, decisive action on the battle-fronts, temporizing and muddling on the home front. Today we have reached another crisis—one of a series stretching back over many months—in inflation control. Those who think Roosevelt could get the desired economic stabilization simply by a nod of the head are most naive. Equally naive are those who think everything would be all right if Congress would double income taxes in the lower brackets (which it won't do anyway); or if we had compulsory selective service for civilians (which has no chance at present); or if we had a labor union regulation law with plenty of teeth in it (which also appears to have dubious prospects at this time).

And, as a matter of fact, the present crisis in inflation control is really serious only in its *potential* aspects. As of today, prices are not running away—merely edging up. Despite the fact that the statistical potentiality of price inflation—as measured by vastly expanded consumer income on the one hand and by shrinking supplies of civilian goods on the other hand—is greater now than at any time during World War I, the fact is that the rise in the average cost of living to date has been far less than over the comparable time span of the previous war.

Indeed, for all practical purposes, the nub of the problem of repressing the price manifestations of monetary inflation during the war period has now come down to the single question of food supply and food costs. All other items in the cost of living — including clothing, rent, fuels and sundries — are adequately "behaving."

Citation of the rise in food prices—about a third of the living budget of a great many manual workers — has been the most effective argument advanced by John L. Lewis in behalf of increased "take-home" for the coal miners. Allowing for reduced quality of much food sold at official prices—and for black market practices—it is undoubtedly true that the real rise in average food prices has been substantially greater than is shown in the Government indexes.

Even when generous allowance for this is made, however, the "dire plight" of the organized aristocracy of labor—as represented by the CIO and the AFL—is being absurdly exaggerated by their skilled propagandists. Over the past year, average weekly earnings of manufacturing workers have continued to increase more sharply than has the cost

of living. As compared with the average of the pre-war year 1939, the net rise in factorv-worker income to date has been three times the increase in living costs, as shown by the official indexes; and even if we accept CIO's exaggerated claims as to the extent of the real rise in food costs, worker income has gained, since 1939, at least two and one-half times as much as the total cost of living has advanced. Average weekly earnings are up 70%.

Position of Leading Food Store Chains and Food Processors

FOOD STORE CHAINS	Sales (Millions) 1942	Sales (Millions) 1941	Operating Profit Margins 1942	Inventories Last Statement (Millions)	Indicated Inventory Turnover (Average Annual)	Market Price Range 1943 H L	Market Price Range 1942 H L	Market Price Range (Pre-War) 1939 H L
First National	174†	142†	2.8%	20	8.5	38 -31½	39½-29¾	51 -38⅛
Grand Union	44*	39	1.5%	5	8.8	13¾- 8	8¾- 6	10⅛- 9¾
Great Atl. & Pac.	1373†	1115†	2.6%	106	12.9	80½-67¼	83 -58	119 -69½
Jewel	53	41	7.3%	4	10.2	33⅞-26	33½-18⅝	44¾-34
Kreger	388	302	1.6%	42	10.0	32⅜-24⅞	29½-22⅛	29⅝-20¼
Safeway	611	475	1.1%	52	9.6	41 -35	44 -29½	51¾-27¾

* Year ending Feb. 28. † Year ending Mar. 31.

PROCESSORS	Sales (Millions) 1942	Sales (Millions) 1941	Operating Profit Margins 1942	Inventories Last Statement (Millions)	Indicated Inventory Turnover (Average Annual)	Market Price Range 1943 H L	Market Price Range 1942 H L	Market Price Range (Pre-War) 1939 H L
California Packing	80	62	9.1%	23	3.5	29¼-22½	22⅝-16½	30 -13¼
General Foods	231	180	14.4%	43	5.4	40 -34	40½-23¾	48 -36⅝
Seeman Bros.	19‡	16	7.8%	4	4.8	33 -29⅝	36 -26½	43½-31
Standard Brands	144	120	10.3%	30	4.7	7½- 4⅛	5 - 2¾	7¼- 5⅜

‡ Year ending June 30.

Quite naturally, organized labor is fighting its own all-out war to retain, and enhance, the special economic advantage that the war activity has brought to it, and so are the organized farmers. The CIO campaign, particularly, is clever. It emphasizes (1) reduction in the cost of living to the level of May 15, 1942; (2) subsidies and credits to food producers to increase production; (3) a guaranteed 48-hour week in war plants or 48-hour pay anyway; (4) flexible powers for WLB so "all necessary adjustments" in wages can be made; (5) industry-wide wage stablization rather than peacemeal changes.

The net effect of this program, of course, would be further to increase both the total money income and the real buying power of factory workers. Both the CIO and the AFL are denouncing and attacking OPA as vigorously and bitterly as Lewis has attacked the War Labor Board.

On the other side of the economic fence, spokesmen for the food trades are yelling that the modest roll-backs already ordered by OPA—and the dollars-and-cents price ceilings recently inaugurated—constitute "economic murder" that will drive countless numbers of food vendors out of business and bring "chaos" in food distribution. Since it continues to get a very fishy stare from Congress, OPA seems to have not a friend in this world.

In all of this furore the real "forgotten people" are the unorganized workers and the white-collar groups—including governmental employees—millions of whom have gained no buying-power advantage whatever, as compared with 1939. These people can become a "pressure group"—of sorts—only when election time comes around.

Considering that national income and its purchasing value are at record-high levels, a remarkable total of political discontent is building up in this country—even though a great majority of the people are satisfied with the war effort itself. Groups that have gained economic betterment are dissatisfied—they want more. Unorganized groups which have gained little or nothing are even more dissatisfied, but far less vocal.

The consensus of press observers in Washington is that the "stabilization line" — which thus far has not been a "line" at all but only a rear-guard defense—will not be maintained, that the "Little Steel" wage formula will be out the window before summer is far advanced, and that OPA will sink deeper and deeper into the dog-house. They may be right. In any event, Federal subsidies—to prevent rolled-back prices from wrecking food distribution and to stimulate farm output of essential foods—represent absolutely the last card in OPA's hand.

Without them it is licked and bankrupt. Without them, all other anti-inflation defenses now in being will be inadequate. Any program of higher taxes and/or forced savings would go through many months of debate in Congress and end, at best, with no more than a moderate portion of the present "inflation gap" closed.

Opposition to Subsidies

But the Administration has not "sold" the public on subsidies and, outside of organized labor and the food trades, support is none too strong. Without the active and vigorous sponsorship of the President, OPA has scant chance of getting Congressional backing for the subsidy program—since the farm bloc attitude is hostile and a number of non-farm state members remains to be convinced. The farm bloc continues quite frankly to favor higher farm prices and has merely been biding its time, hoping that developments on the labor front would provide excuse to trot out the Pace Bill again. Meanwhile—beating the gun even before the coal-wage dispute has been settled—a group of Southern Senators has come up with a bill to put a floor of 23½ cents and a ceiling of 25 cents on the price of cotton (a surplus commodity) at the farm.

With its back to the wall, OPA had to start the roll-back. To get away with any roll-back, it had

to get hold of subsidy money promptly. This was done, temporarily, by getting a grant of $400,000,000 from the Reconstruction Finance Corporation—by-passing Congress. Thus, OPA has precipitated an early show-down. In Congress the opposition—if it commands a majority — will have three early chances to kill the subsidy program: (1) The RFC's present borrowing power is near exhaustion and it has pending a bill for another $5 billion authorization. Congress could attach a rider barring use of RFC funds for food subsidies. (2) OPA's own appropriation, without which it can not maintain its present limited personnel, comes due next month. (3) A rider could be added to a pending bill to increase the Commodity Credit Corporation's capital by another $1 billion.

The OPA plan is not to apply subsidies to food distribution all down the line but to absorb the proper cost of price roll-backs at primary points, leaving enforcement of price-ceilings at the retail outlets to present methods, which consist of a limited amount of official policing, appeals to food vendors to be honest and appeals to shoppers to carry on volunteer policing. Thus, subsidies would be paid, for example, to General Foods, Standard Brands or Seeman Brothers, rather than to the grocers who retail their lines; to Swift, Armour or Cudahy, rather than retail butchers. Even so, the "primary points" would be numerous and administration of the program far from simple or fool-proof.

Profits in the Food Business

You can be sure of one thing: the subsidy money now in OPA's hand will not be used in any way to *increase* profits in the food business. Beyond that, you—and the food trade—can't be sure of anything. The RFC subsidy won't last very long. If Congress refuses additional authorization, the present effort to get food prices back to the level of last September—much less to the May, 1942, level demanded by labor—must break down. In food distribution the unit margin of profit for the larger and more efficient merchandisers is narrow under the best of conditions; and for the majority of small vendors the best attainable *net income* amounts to no more than the equivalent of a modest annual wage for the labor of the owner. There is no other trade whose efficient functioning is so vital to the consuming public—and no other in which it would be so easy for unworkable OPA regulations to create serious disruption.

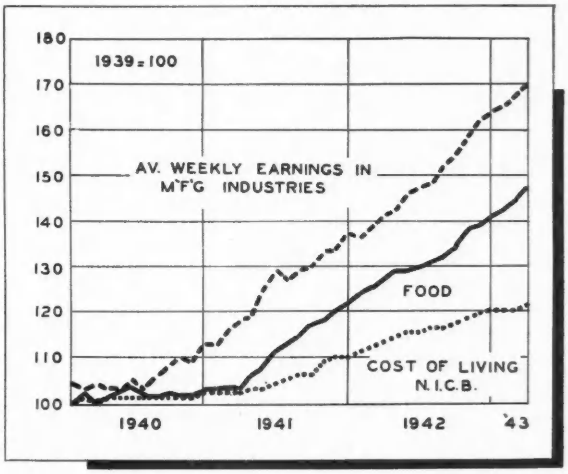
Moreover, future subsidies at primary food distribution points can not solve the problem of food vendors who are *right now* being squeezed between higher costs and ceiling prices, and who are threatened with roll-backs to become effective June 1. They have already paid for present inventories—or are under legal obligation for payment—at costs under which they claim they could not maintain living profit margins on re-sale at roll-back prices. The chances are that the date of roll-back will have to be deferred—pending the working out, in consultation with the trade, of fair and efficient methods of subsidy distribution.

First quarter earnings statements of listed companies in the food business can give no reliable clue to future earnings prospects. On an average, they were fairly well in line with a year ago. Only later statements can give reflection to the effects of further rise in operating costs, a reduction in sales volume on various lines under point rationing, new OPA price regulations, roll-backs, subsidies, etc.

To the trade's cry of "economic murder" the OPA has replied with a vigorous statement that food retailers and wholesalers are now "in the most favorable economic position on record" and that they will remain in it. The statement points out that retail dollar volume in foods in 1942 was 76 per cent higher than in the pre-war year 1939, that present sales are running somewhat above the 1942 rate; that dollar margins over replacement cost for food distributors stood in March at a level 27 per cent above the average of 1935-1939 and 15 per cent above the average of 1942, that 1942 profits (before taxes) of large food chains were 156 per cent above the level of 1936-1939, that profits (before taxes) of incorporated food wholesalers showed a somewhat larger increase and that—while profit figures are not available for small retailers—the fact that business failures are the lowest in fifty years suggests they are not doing badly.

The OPA figures relate to the past; the agitation of the food trade relates mostly to the future. To put it mildly, neither point of view can be accepted as disinterested or objective. It may be noted that market action of stocks of food chains and food processors does not indicate any significant fear or agitation on the part of investment holders—but, on the other hand, it is a "behind the market" group.

RISE IN LABOR INCOME OUTRUNS COST OF LIVING



As the accompanying tabulation shows, very few of these stocks have been able to top the best prices of last year by any appreciable degree; and still fewer—at 1943 highs—were able to top the 1939 highs. Their persistent (*Please turn to page* 213)

Which Companies are Building up Equity Values?

BY J. S. WILLIAMS

OF ALL forms of differential advantage in business and industry, financial strength is the most important. In normal times this is true enough; today, with post-war problems and uncertainties to contend with, it is rapidly becoming a cardinal factor in corporate thinking and practice. A glance at recent earnings reports and balance sheets confirms this. There is a well-defined tendency to forego large distributions of profits; instead, the trend is toward strengthening financial positions so as the better to cope with whatever the future may have in store.

There are, of course, other considerations that advocate such a course. They are primarily fiscal and very compelling; in fact, with EPT rates being what they are, it is hardly a matter of choice. However, whatever the immediate motive, the effect is the same; to wit, strengthened working capital and increased stockholders equity which should benefit both the company and the stockholders. From a general economic point of view, the desirability of such a policy is beyond question.

A study of corporate reports shows how widespread has become the practice of husbanding resources in the interest of future financial strength and liquidity. Many companies, notably those directly engaged in the war effort, have made a point of retaining a substantial part of their profits, chiefly by creating special reserves. Others, taking advantage of favorable tax law provisions, used some of their current income for debt retirement or reinvested surplus profits in the form of plant improvements or by creating additional productive facilities. Either course combines two advantages, both eminently desirable; it strengthens the company's position and, in most cases, helps to decrease tax liability. Examples are numerous.

Take, for instance, Bethlehem Steel, which set up substantial reserves to meet various contingencies. Besides reducing, in 1942 alone, funded debt from $181.77 to $162.77 millions, the company set aside as contingency reserves chiefly for reconversion—a total of $17.57 millions whereof ten millions from last year's income. Additional $9.83 millions were provided for replacement of lost vessels although largely covered by insurance. $13.5 millions were set aside for amortizing the costs of emergency plant facilities. Moreover, since 1939, a total of sixteen millions was deducted from inventory valuation as a reserve for a possible decrease of market prices of certain raw materials. In addition, $30.90 millions were spent in 1942 for extensions and improvements of the company's properties. Notwithstanding the payment of heavy taxes, total assets at the end of 1942 reached the record high of $994.7 millions against $862.6 millions at the end of 1941. Equity per common share was $142.5 against $122.3 in 1939.

Similarly, Standard Oil of New Jersey created very sizable reserves, besides reducing materially its funded debt and retiring bank loans. Taking advantage of the provisions of the tax law, the concern last July redeemed fourteen millions 1¼% serial notes due in 1943/44 and paid off bank loans of twenty-one millions maturing in the years 1945/47. Additionally, a war-time contingency reserve of seven millions was set aside from current income, and a further reserve of $25.85 millions for replacement of lost tankers. For possible losses on foreign investments, a special reserve of $105 millions was earlier charged against surplus; since such losses are likely to turn out to be considerably less, a goodly part of this may later be returned to surplus account.

U. S. Steel in 1942 retired $41.38 million of long-term debt including $35 million of its own serial debentures. Special reserves, charged against current and previous earnings, today stand as follows: $50 millions for estimated additional costs arising from the war; $54.17 millions for insurance and loss replacements; $50.18 millions for contingencies and miscellaneous. The total set aside as reserves equals fully $17.73 per common share.

Anaconda, following its consistent policy of debt retirement, in 1942 discharged the balance of its outstanding funded indebtedness which amounted to $20.93 millions.

Generally, in relation to earnings, the heaviest reserves were created by steel, chemical, rubber and machinery concerns. In the case of the steel industry, a balance sheet study of a number of leading companies shows that in 1942, such special charges amounted to some 26% of net after taxes, against only 13% in 1941. In the machinery industry, a similar survey discloses in 1942 reserves amounting to 20% of net after taxes compared with 6% in 1941. The proportion in the case of a number of chemical companies was 13% and 9% respectively. The resultant strengthening of their financial positions is, of course, a factor which should weigh heavily in appraising their post-war prospects.

Growing financial strength, meanwhile, is finding expression in steadily increasing assets and stockholders equity. This exhibit can be found in virtually all segments of industry but again particularly in those heavily engaged in war work with resultant large profits and high tax liabilities. A case in point is the machine tool industry where many companies show very substantial increases in stockholders equity. Monarch Machine Tool Co., for instance, in 1939 reported equity per common of $11.65; today, it amounts to some $31.69. Similarly, equity per common of the Bullard Co. is in the neighborhood of $30.11 against only $10.71 in 1939. Assets of the Bullard Co. rose from $14.82 millions in 1941 to $31.03 millions last year; those of Monarch Machine Tool Co. from $6.83 to $14.87 millions.

The farm machinery industry, now heavily occupied with war orders, also made substantial provisions for post-war and other contingencies. Allis-Chalmers, apart from prepaying five millions of its forty millions V type bank loan maturing in 1946, set aside $4.8 millions for inventory and other post-war adjustments and additional two millions as a general reserve. International Harvester in 1942 created a twenty million dollar reserve for post-war rehabilitation and contingencies. In both instances, assets and equity rose very substantially in recent years.

The aircraft industry where the need for a conservative financial policy is perhaps greatest in view of the obscure post-war outlook, furnishes other excellent examples. United Aircraft, for instance, created from wartime earnings a reserve of $23.89 millions for "transformation to post-war conditions." Its equity per common in 1942 was $23.33 against $12.25 in 1939.

Numerous manufacturing companies, and more especially the makers of automotive equipment, have followed a similar course of bolstering their financial structure; to the extent of the protection they thereby created against the vagaries of post-war economic conditions, their standing is enhanced and their future prospects more promising.

In general, the policy of conserving resources by retaining or reinvesting a sizable part of current income has been surprisingly widespread. The accompanying table lists a number of companies where as a result, there has been a material increase in assets and stockholders equity during the last few years. The means by which this was achieved, were varied, as were the motives. Tax considerations no doubt played an important part but equally if not more decisive was perhaps the urge to provide against future economic stress. Post-war capital requirements are expected to be large and to protect working capital position against excessive cash demands must be the primary concern of every management. The companies listed, and many others too numerous to mention, have shown themselves very much alive to this need.

From the investor's standpoint, this trend which may be expected to continue for the duration of the war, gives a new meaning to the importance of "book value" as a statistical exhibit. In the past, book value had lost much of (*Please turn to page* 216)

	Capitalization 000 omitted			Total Assets $ millions				Net Working Capital ($ mill)		Book Value $ Per Share	
Name of Company	Debt	Prefd.	Common	1942	1941	1940	1939	1942	1939	1942	1939
Acme Steel Co.	......	......	328	19.6	18.9	17.1	14.8	5.97	4.84	49.5	38.3
Allis Chalmers	50,000	......	1,776	184.9	130.6	114.0	108.0	82.6	49.6	41.9	33.5
Anaconda	......	......	8,674	646.0	625.9	607.1	587.9	120.1	91.4	65.8	59.1
American Can	11,000	412	2,473	235.0	226.8	198.4	190.9	64.5	56.2	53.7	48.1
American Tel. & Tel.	1,499,055	......	8,293	3481.4	3445.7	3165.3	2994.0	88.1	73.8	127.8	126.2
Bethlehem Steel	162,171	933	2,984	994.7	862.6	763.7	732.9	205.3	187.3	142.5	122.3
Borg-Warner	......	......	2,336	105.3	73.5	54.9	49.4	31.6	23.9	21.8	16.6
Bullard Co.	1,893	......	276	31.0	14.8	7.41	4.71	4.12	1.40	30.1	10.7
Campbell, Wyant	......	......	344	10.1	8.09	7.31	6.86	2.85	2.31	22.2	17.9
Chrysler	......	......	4,351	323.8	255.3	267.6	222.4	141.3	94.7	45.7	39.4
Clark Equipment	......	17	237	21.3	19.1	11.7	9.39	5.73	4.03	40.7	35.7
Crane Co.	8,000	192	2,348	120.8	120.8	109.1	109.4	51.0	46.2	34.0	29.6
Crucible Steel	14,142	327	444	117.6	110.9	91.2	115.3	37.7	21.1	83.8	57.92
Fairbanks Morse	......	......	599	52.4	41.7	34.2	31.8	14.3	14.9	47.0	37.6
Food Machinery Co.	4,000	20	426	22.4	15.7	13.3	11.9	13.0	8.31	28.1	19.8
International Harvester	......	816	4,246	517.7	484.6	443.7	427.9	286.0	218.0	77.5	68.0
Johns-Manville	......	25	850	79.9	69.2	58.8	53.7	32.3	18.7	63.8	47.4
Loews, Inc.	35,116	......	1,665	167.2	164.1	161.0	157.3	58.9	52.9	65.0	55.9
Master Electric Co.	......	......	249	8.09	5.42	3.62	2.94	2.07	1.67	15.5	10.0
Minneapolis-Honeywell	6,000	55	622	36.8	17.8	13.7	12.2	11.0	7.62	17.4	13.0
Montgomery Ward	......	201	5,217	295.1	290.2	271.6	251.8	200.3	148.8	45.6	36.4
Monarch Machine Tool	250	......	578	14.8	6.83	4.64	2.14	3.81	0.92	31.7	11.6
Monsanto Chemical	......	210	1,241	92.4	84.7	71.9	71.2	21.8	14.8	33.3	29.3
Outboard Marine & Mfg	·4,000	......	297	13.6	7.51	5.60	4.59	3.34	2.48	19.2	12.4
Pullman, Inc.	......	......	3,302	282.0	233.7	232.9	221.8	87.3	70.6	58.9	52.5
Pure Oil	......	725	3,982	208.1	197.5	184.7	178.5	30.9	23.1	23.1	22.7
Safeway Stores	19,150	214	846	100.4	100.1	80.8	76.7	46.2	34.4	42.4	39.5
Sears Roebuck	......	......	5,780	386.5	386.7	350.4	323.6	196.0	164.2	54.2	47.1
Skelly Oil	13,600	......	981	74.1	70.4	63.9	62.0	11.8	7.78	52.7	42.4
Standard Oil of N. J.	214,790	......	27,278	2220.1	2202.3	2071.5	2034.9	495.6	466.6	48.5	48.8
United Aircraft	34,123	260	2,656	208.2	206.0	131.8	132.2	73.9	18.6	23.3	12.2
United Merch. & Mfg.	6,516	......	590	42.3	36.8	28.6	27.1	11.63	5.77	36.6	22.8
U. S. Rubber	34,563	651	1,739	215.4	224.7	192.8	182.2	103.1	74.5	32.3	24.9
U. S. Steel	151,909	3,602	8,703	2123.4	2045.0	1854.5	1768.5	523.2	431.9	139.9	119.1

Watch the World Go By—

Progress of Inflation in Other Countries and the Lessons for the United States

BY GEORGE B. COLLINGWOOD

During every war there is a widespread fear of inflation. The costs are so staggering and the reduction of civilian production so obvious, that every amateur puts two and two together and decides that his money is in a parlous state. Due to the melodramatic collapse of the German Mark in 1919-23, the word "inflation" now has acquired a highly colored meaning. People forget the moderate rise in prices in Britain and the United States after 1920, as against pre-war: they remember only the very sharpest inflations. In this war, too, the popular fancy thinks it sees printing presses groaning under the manufacture of money in most of the warring countries. Has this romantic view any serious basis in fact? What does the experience of the warring countries really teach us?

* * *

In the first place, it reveals that, on the average, the poorer the productive capacity of any country, the sharper is its rise in general prices. For example, inflation has taken on the most extreme form in China. The country is invaded. In the areas remaining to the National government, there is not a tithe of the feeble industrial capacity that was concentrated near the seaboard. In this juncture, the impact of war costs is stupendous on the feeble productive power. Costs have shot up twenty or thirty fold. No proper index can be computed that will adequately cover this profound dislocation. But this is the worst situation we have to face and it is definitely a product of an expensive war carried on with expensive, technically advanced military products, and financed by a country with relatively no industry, no foreign investment and with export possibilities practically nil.

* * *

The next two inflations in intensity are those prevailing in India and the Middle East. Here the figures are far less frightening, though they are disturbing enough. The cost of living in Calcutta is assumed to have increased three-fold since pre-war. Governmental regulations are to no avail. 350 million human beings, scattered in hundreds of thousands of isolated villages, with almost no roads over large areas, cannot be controlled by bureaucrats or the police. Black market reports indicate that the true cost of living has advanced four-fold. Here there has been a sharp upturn in war production, which is at a much higher level than in China. The inflation has therefore been only a sixth as virulent as in China, and this despite the increase in bank note circulation from 179 crores of rupees pre-war to 563 crores today. The cost of living roughly parallels the ratio of increase of notes in circulation. Here, a more productive country, dislocated by enormous increases in purchasing power, due to the war effort, has nevertheless, by reason of greater wealth, remained fairly manageable.

* * *

The Bank of India has acquired enormous assets in Sterling, in the meantime, and so part of the inflationary development should be cancelled by these assets, which should enable India to purchase large quantities of consumer goods, once the war is over. The industrial development of the country, largely due to the war, will also create the possibility of supplying India with more goods, and so diminish the larger effects of inflation.

* * *

In the Middle East, inflation has reached about a three to one level. Usually that is the point at which it is necessary to take active measures to bridle prices, for they may get out of control. But here, too, the shortage of actual wealth, is the dominating reason. In Egypt the loss of the tourist traffic reaches the tens of millions. True, there was a largely military concentration there, in the early days of the African War, and, so long as the soldiers spent, the income from abroad was a help, but, in the meantime, soldiers' demands soaked up the small supply of consumer's goods. Once the Army moved towards Tunis, the want of any additional revenue immediately affected the country.

Shipping difficulties made cotton exports more difficult and costly. The small supply of goods skyrocketed in price. A stock exchange boom became frantic, as everyone fled from the Egyptian pound. Rents were raised by decree, as much as 40%. The upward spiral was encouraged by rapacious local politicians, now free from former British control.

This encouraged inflation's spread to the whole of the Middle East. In Palestine, now without middle-class immigration and the constant investment of fresh refugee funds, a three for one price rise conformed to that of nearby Egypt. At last, to assuage the evil, the Allies formed the Middle East Supply

Center to furnish goods in abundance to these areas and as a result the inflation is being checked. Countries like Turkey, reassured as to their price structure, are increasingly sympathetic toward Allied aims. It was the supply of goods, and that alone, which has stopped one of the most dangerous focuses of world inflation.

* * *

The same story is true throughout. Spain, still incredibly poor as a result of the Civil War and its government by a non-commercial-minded governing class, has experienced a price gain of more than 150% nominally, in the last two years. The want of goods in that country and the absence of important buying power abroad have conjoined to produce an inflation which, if black market figures would be given, almost rivals that of Egypt. No relief can come from outside investment.

* * *

In Portugal the whole situation got out of hand in 1942. The cost of living is more than twice that eighteen months ago, bank note circulation is fast increasing and bank deposits are extremely large. Here, however, a second factor must be considered. German money has been flowing into Portugal as a hedge against defeat. The Germans know that Portugal is in the British orbit, financially, and so they place their money where they can enjoy a tie-up with the pound, and yet have their cash in a neutral land. This enormous inflow of deposits, suddenly striking a land always poor in commodities, has had a sharp effect on the price level. Refugee spending has helped this tendency. The Portugese government has not at yet been able to cope with this increase in bank deposits, for it dares not, as yet, displease the masters of continental Europe.

* * *

The occupied countries are a startling proof of the theory that the greatest source of inflation is always a shortage of production. In France, certainly the richest country in continental Europe before the war, so far as consumer's goods were concerned, the tribute paid to Germany is so excessive that the French worker is today about the poorest fed in western Europe, apart from the Italians. The Vichy government has not lacked for decrees against the rise in the cost of living, but it admits they have been wholly ineffective. So long as France is systematically denuded of goods, and so long as the circulation of internal bank notes continues to increase, the cost of living must rise. The Bank of France circulation figures are worthless in this respect, for they exclude the notes printed for the German indemnity, with which notes the Germans enter the French market as buyers. The stock exchange index is 600% above May 1940, whereas in the United States it is still comparable.

* * *

Germany appears to have a much more stable price level. But that is an illusion. Apart from the simple fact, noted even by grave statisticians of the League of Nations, that all German figures are window-dressed, the decline in quality and consistent shortweighting, indicates that the cost of living is rising steeply. But in Germany there is still another distortion. When Germany is defeated, and has to restore her plunder, the German will wake up and see that the supply of purchasable goods, few as they are, were not really his at all, and that there are no true net assets to place against the increase of money in circulation. When that terrible day comes, he will see that the ratio of German money to real German goods has increased out of sight, and that his money is practically no good at all. That inflation is already implicit: the Germans conceal it only by temporary military camouflage.

In Russia, there is no inflation of importance because, of course, there is no price economy, in our sense, and so there is no means of measuring shortages in terms of money.

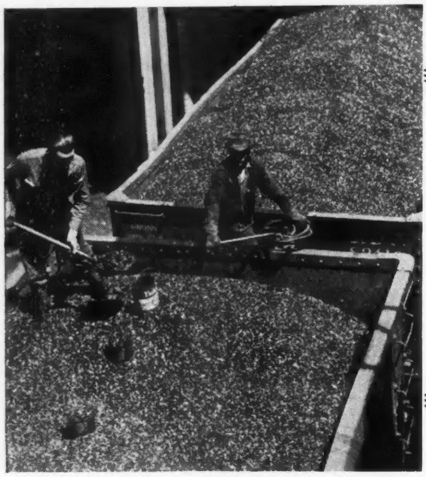
It may be asked: if productivity is the cure for inflationary tendencies, why did the richest industrial country in Europe, Germany, suffer so greatly in 1919? The answer is twofold. First Germany lost almost all her foreign assets and income; second, she had exhausted all her consumer goods surplus; third, the inflation was partly deliberate. Her overlords decided wantonly to wreck the currency. In this way they sold out their internal profits for foreign exchange and then, by pleading poverty, got more out of foreign credits and loans than they paid in indemnities. In order to get this aid, they staged a "breakdown" and thus cheated their own people at home and allowed the victors of the war to pay them, the defeated nation, tribute. A stage-managed inflation is not the subject of this article—only a genuine one.

* * *

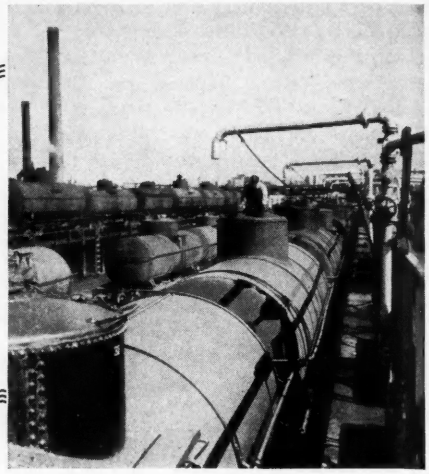
Britain and America, have, until now, suffered the least from inflation. Whatever the sharpness of the cost-of-living rise here, it is modest in world terms. But there is no (*Please turn to page* 209)

Underwood and Underwood

National Bank of Roumania



COAL *Versus* OIL



BY E. A. KRAUSS

WHEN back in the middle twenties, under the impact of technological and competitive developments, King Coal began to topple from his throne, there were few, if any, who would have ventured the prediction that the dethronement was not final and irrevocable. Today, almost two decades later, a comeback of coal, not perhaps to its former regal status as the foremost supplier of the country's energy requirements but at least to a far greater role in the nation's future economy appears increasingly probable. How has this come about, and what does it portend in terms of the future relative position of coal and oil?

Over the nearer term—that is, for the duration of the war—the outlook is fairly clear. Coal no doubt will be a heavy beneficiary of the war-enforced retreat of oil as the country's premier fuel. Already bituminous coal production is running into record figures exceeding the previous peak output of 579 million tons in 1918 when the coal industry, under the stimulus of World War I demand, had reached its pinnacle both in point of output and capacity. 1942 output actually came to 580 million tons, a gain of 13% over 1941. Anthracite production, even more depressed than bituminous coal prior to the war, last year recovered to sixty million tons compared with a 1939 low of 46 million tons and its 1917 peak of one hundred million tons. For this year, a production goal of a minimum of 600 million tons, virtual capacity, has been set for bituminous coal, and of 65 million tons for anthracite. On the other hand, crude oil production last year *declined* seven million barrels to 1,384 million barrels.

These figures speak an eloquent language, viewed against the prewar trend which found oil production constantly ascending, coal output descending. The reason for this reversal is, of course, well known. The war with its sharply stepped-up fuel requirements and transportation difficulties put a tremendous strain on the oil industry. Simultaneously it served to expand rapidly the demand for bituminous coal to feed our overworked railroads and utilities, and our huge war plant in general while anthracite was called upon to resume its former position as principal domestic fuel to release needed fuel oil for military and war-industrial purposes. Thus the lines are drawn for a return match between solid and liquid fuel; having lost the first round, the coal industry approaches the second test with odds somewhat more even.

Everyone is familiar with the factors which in the past brought about the eclipse of coal. These factors for the duration will become more and more inoperative; a long war should heavily tip the scale in favor of coal.

The oil industry since the war had to contend with many difficulties. Foremost was the transportation problem, already referred to; the lack of tankers and tank cars to supply adequately the industrial East and other important consumer sections of the country. This led to a widespread changeover from oil to coal as the fuel for many industrial plants and even more so of home heating units, constituting the loss of a large part of a market which the oil industry had assiduously cultivated in the past. Another and, in the opinion of many, more serious problem is the virtual cessation of new drilling for lack of man power and equipment.

Much has been said and written on the subject of the approaching exhaustion of our oil reserves; such fears, frequently expressed in respect to other natural resources in the past, were never confirmed by recorded facts. I am inclined to believe that the same will hold true in the case of oil; nevertheless, the question has again come very much to the fore and sometimes extreme views are heard. In this connection it should first be pointed out that the aforementioned decline in the 1942 crude oil production is neither alarming nor, in the absence of new drilling, abnormal. In the past, annual declines of the existing productive capacity occurred regularly but —and here is where the difference comes in—were

normally more than offset by new development work; the latter has largely ceased since the war. The result was a simultaneous decline, for the first time in years, of proved recoverable oil reserves, at present estimated at about 20,675 million barrels or on the basis of current production, a supply of about twelve years. However, it must not be forgotten that our past known reserves consistently ranged between ten and fifteen times annual requirements which has come to be considered as a normal working backlog. Such a reserve position can be regarded entirely satisfactory as long as such a relation is generally maintained. However, increasing annual requirements indicate the necessity of continued discovery of *greater* new supplies and the oil industry today faces just that problem; instead, new drilling has declined sharply.

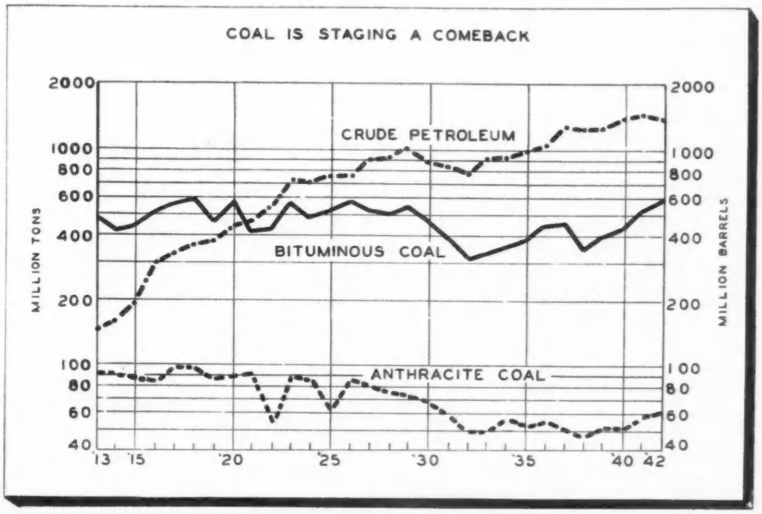
Declining Oil Discoveries

In seven years through 1942, new discoveries added some 15.8 billion barrels to our known recoverable reserves, an annual average of some 2.26 billion barrels. The annual average production in these years was about 1.28 billion barrels. However, in the three years ended with 1942, new discoveries averaged only 1.66 billion barrels annually while production averaged about 1.38 billion barrels. Moreover, in 1942 new discoveries, including extensions and revisions of existing properties, failed to equal production (meaning consumption) by some 263 million barrels. This disparity in itself is not particularly serious and of course due to the war-enforced drilling holiday. However the fact that new discoveries have been in sharp decline for the past five years is significant. It is apparent that the zenith of our discovery rate has been passed. This does not imply any drastic shortage of supplies in the foreseeable future; it does imply the necessity of conservation. Future new discoveries will probably be in more difficult locations and perhaps in smaller quantities; this emphasizes the need for a high rate of exploration activity, and continued development of new fields and older ones not yet fully exploited. It probably also means higher production costs which in turn may have an important bearing on the oil industry's future competitive status.

All this means that the oil industry will be severely taxed to meet the steadily expanding war demand without physical waste which it can ill afford. Recent official estimates of the war needs and essential civilian requirements for 1943 are slightly less than four million barrels daily with a peak of perhaps 4.2 to 4.6 million barrels daily foreseen during the last quarter of 1943. This compares with an average daily output in 1942 — despite rationing—of 3.79 million barrels, just a shade under the 1941 record production. In practical terms, it means, in the absence of new drilling, that the time is at hand when coal must be used wherever possible for heat and power to assure adequate oil supplies not only for war needs but for necessary post-war uses. The latter is important; it cannot be achieved if war time production is sustained at record levels at the cost of great physical waste which inevitably results if well production is unduly forced. This leaves little doubt that henceforth, so far as oil is concerned, the accent will be on conservation; it fully explains the oil industry's current drive for higher crude prices and resumption of drilling activities. To the coal industry, with its limitless reserves of coal deposits, it opens vast and interesting possibilities.

At present, roughly one-half of the country's crude oil output is consumed as fuel for heat and power. In many instances, coal would do just as well; it is cheaper than oil and the latter's advantage of convenience in handling is constantly being reduced by improvements in distribution and stoking equipment. Moreover, progress in combustion engineering has rendered coal increasingly economical vis-a-vis fuel oil.

This brings us to the longer term outlook, the post-war prospects of coal relative to oil. Here, the lines are less clearly drawn and it would be rash indeed to jump to detailed conclusions. However, it can be said that the outlook, as it appears today, definitely favors a revival of the coal industry. This prediction seems safe and warranted in fact; it is not predicated on the need for oil conservation alone but is additionally supported by the ascendancy of coal as an industrial raw material. One might be tempted to prophesy that any marked expansion of the coal industry, nevertheless, could only occur at least partially at the expense of the oil industry; however, the astounding technological progress of that industry and the ever growing uses found for oil would gainsay any such prediction. It is possible that for some time, at least, oil consumption will not approach or exceed past and current peak levels; in other words that the secular expansion of crude pro-



duction will be interrupted if not halted entirely. However, such a development is entirely conceivable without encroaching in the least on the importance of oil or the profitability of the oil industry. Such are the wonders of modern chemistry. This point will be illustrated later on.

Meanwhile, many factors point to a substantial revival of coal consumption in the post-war era. As already mentioned, there is first of all the need for oil conservation which may or may not find expression in official sanction or enforcement in many forms. Next comes the price element; while definite conclusions must of course be left to the future, all signs at present point to a reversal of the longterm downtrend of petroleum prices. In part, this has been motivated before. If it actually comes to pass, it should be helpful in re-establishing anthracite as the principal home fuel. Furthermore, the expected post-war business boom would in itself imply a high rate of bituminous coal consumption, this being the leading industrial fuel. The fortunes of the bituminous coal industry may be further enhanced by a post-war comeback of the railroads; their decline in the past contributed much to the eclipse of the coal industry.

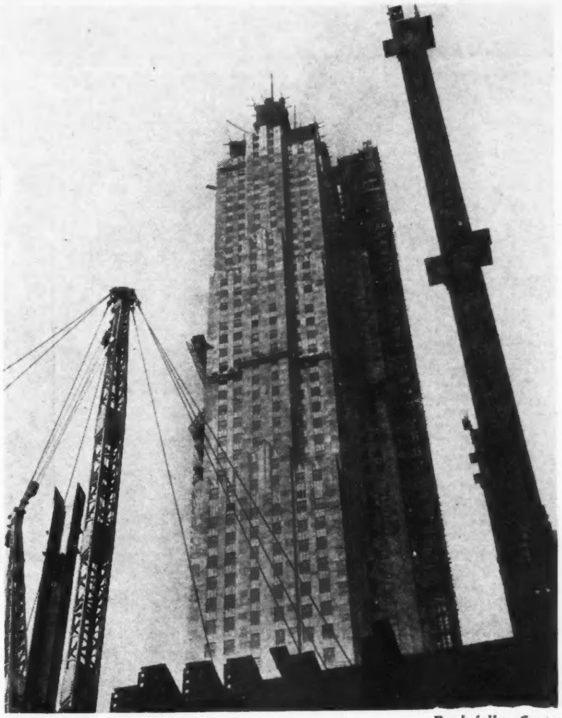
Moreover, coal is (*Please turn to page* 205)

Position of Leading Coal and Oil Companies

Name of Company	Book Value Per Sh.	1936-39 Avge. Net Per Sh.	1941 Net Per Sh.	1942 Net Per Sh.	1936-39 Avge. Divds. Per Sh.	1941 Divds. Per Sh.	1942 Divds. Per Sh.	COMMENT
ANTHRACITE PRODUCERS:								
Glen Alden Coal Co.	56.22	0.67	2.17	2.81	0.65	1.70	2.00	1942 earnings should compare favorably with last year and a dividend of at least $2.00 is expected. In sharp contrast with others, the financial position is fairly strong and operating costs relatively low.
Lehigh Valley Coal Corp.	74.50(b)	1.23D	0.90	0.37	Nil	Nil	Nil	A leading anthracite producer of Eastern Pennsylvania. this company is equipped with very modern machinery and has cheap power sources. While it should benefit materially from rising demand, early debt maturities appear to make dividend resumption remote.
BITUMINOUS COAL PRODUCERS:								
Island Creek Coal Co. ..	29.03	2.01	3.11	3.24	2.00	2.50	2.00	1943 earnings should compare favorably with last year's. Strong finances insure maintenance of the half-dollar quarterly dividend. Comparatively low operating costs and high quality of the coal mined enabled company to establish sustained earning power.
Pond Creek Pocahontas..	26.66	0.91	2.72	3.10	1.31	1.75	2.00	A smaller bituminous producer but output consists of high-grade coal. Earnings this year should move moderately higher in line with additional tonnage gains expected. Maintenance of $2 dividend is held assured.
INTEGRATED OIL COMPANIES:								
Continental Oil Co.	25.07	1.77	3.29	3.19	1.12	1.00	1.00	With principal activity in the more profitable crude oil division, 1943 earnings should compare favorably with last year's, bolstered by expanding output of toluene and aviation fuels. The stock is well thought of in view of the company's conservative accounting practice.
Gulf Oil Co.	41.04	2.73	3.70	2.53	0.94	1.50	1.50	This highly integrated company enjoys a strong operating position and large crude reserves. For earnings, the company is less dependent on the spread between crude and refined prices than the average integrated oil unit, enhancing future profit possibilities.
Skelly Oil Co.	52.70	3.70	6.03	5.74	0.81	1.50	1.25	This relatively small, but well integrated unit can be expected to report continued high earnings in 1943. Rationing effects will be largely offset by production of aviation fuel components.
CRUDE OIL PRODUCERS:								
Amerada Oil Co.	24.49	2.30	3.26	4.15	2.00	2.00	2.00	Because of extensive crude oil reserves and prospects of sustained high earnings, the stock is in a favorable market position although no change in the dividend rate is anticipated. Company's past impressive record of oil discoveries warrants expectation of better than average future potentialities.
Plymouth Oil Co.	8.54	2.37	1.48	1.69	1.34	1.20	0.90(a)	Principally a producer and seller of crude oil with relatively large reserves which constitutes a favorable long range consideration.
Seaboard Oil Co.	38.00	1.72	1.02	1.19	1.00	1.00	1.00	Past aggressive exploration policy of this small crude producer enhances post-war potentialities. For the duration, output is likely to expand steadily and further earnings improvement is anticipated.
PETROLEUM REFINERS:								
Atlantic Refining	66.30	2.29	5.16	2.33	1.06	2.00	0.70	This medium-sized refiner is considerably affected by rationing and sales should continue to run below previous levels, since only partially offset by expanding output of aviation gasoline.
Standard Oil of Indiana..	47.65	2.70	3.17	2.89	1.74	1.50	1.25	While affected by rationing, the company this year should fare reasonably well because of continued strong industrial and agricultural demand. Increasing output of toluol and aviation fuel is a sustaining factor.
Standard Oil of Ohio	72.77	3.72	7.47	6.68	1.50	2.50	2.25	While rationing has been cutting into sales, the loss should be gradually balanced by expanding production of aviation gasoline and industrial oils.

D—Deficit. (a) Plus 1½% stock dividend. (b) Per Preferred Share.

The Building Industry



Rockefeller Center

—In War —And Post-War

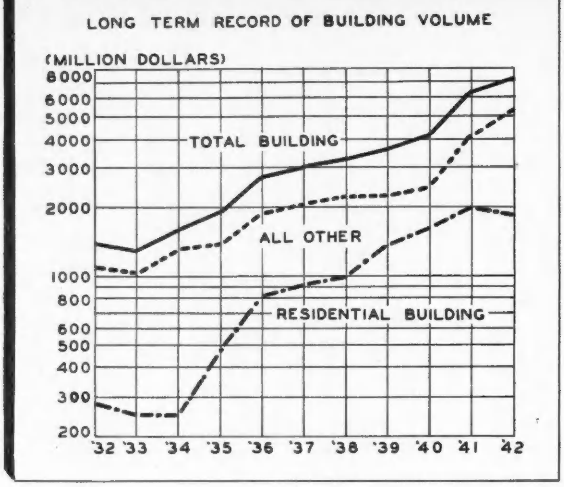
BY WARD GATES

DURING recent weeks, the government, anxious to conform war production to proven war needs, announced impressive "cut-backs" in important sectors of war industry. Among the more conspicuous sufferers from this readjustment were the construction companies, and, indirectly, the building material stocks. The stock market effect on this group was the opposite to other groups affected by the same "cut-backs." Why? Why did the others sell off and the building materials stocks advance into new high ground? What made the market ignore this proven immediate reduction in earning power?

First, that move had been forecast for months, whereas for the other industries it came more nearly as a surprise. But bad news may absorb shocks: it does not often command premiums. What was the investor's calculation in renewing commitments in that group?

It was, undoubtedly, the assurance that certain types of construction would have to take the place of those discontinued. The government diminished construction of specified plants and direct military facilities, as in camps, but the market felt that the labor and materials so released would, after a short interim, be allocated to the housing of war workers. If the housing of war workers could not take up this displacement of men and materials, then public works would be increased. For it is impossible to permit of unemployment in this situation. So the market reasoned (to some extent without evidence) but upon a correct deduction from the war pattern. Recent reviews of construction by Federal authorities indicate that this view is not mere prejudice.

But the more determining consideration was certainly the post-war outlook. Every prophet of post-war developments is agreed that construction is the first industry to be considered. First, the housing of our people is long in arrears. Second, modernization is sorely required. Third, construction still employs more labor per dollar of volume than almost any other industry and is thus ideal for coping with post-war unemployment problems. Fourth, rebuilding of private industry will be required to make effective shifts from war to peace production. Sixth, population migrations are extensive and largely permanent. Seventh, the marriage and birth rate, and the deferred marriage and birth rate, interrupted by war, promises to create a demand for new housing from the age-groups that have always been the principal source for new housing. Eighth, it is admitted, pretty generally, that for a few years after the war, the government will use public works as a balance-wheel until normal economic relations will have been re-established. Ninth, the air is full of talk about "urbanization," that is intelligent city planning. Syracuse is aiming at such a comprehensive overhauling of its entire urban set-up, and the Metropolitan Life's New York City rehabilita-



tion program is cash evidence that this hope is not mere theory. Tenth, the evolution of new fabrics for interiors, of the plywood type, of new needs, such as summer cooling by the winter-heating systems, promise new tastes and hence increased obsolescence of buildings of the non-improved types. Eleventh, the art of prefabrication, so long in the tentative stage, no longer wearies investors with its delay in being realized: city planning now makes it certain that it must be partly resorted to. The experience in quickly erected defense workers' dwellings, with standard parts quickly installed, has taken this too out of theory. Twelfth, the clear encouragement of the government for the development of Latin American and African and Chinese cities and ports, indicates more importance to the use of our building materials and accessories abroad. Thirteenth, the proven bulk of consumer savings (perhaps reaching a hundred billions when the war is over) already shows a preference for durable goods.

Certainly the government attaches great importance to housing. In February 1942, the Federal Public Housing Authority was formed, and one of its departments charged with specific post-war housing needs. It has no organism to examine office building or even industrial needs. But within its restrictions, its aims seem ambitious enough.

These are the considerations that have animated investors. Have they appraised this picture correctly? Have they ignored important qualifications? Will the benefit of these improvements, and of this heightened volume, fall unequally on varying companies? Above all, does the prevailing prices for the group largely discount these possibilities? These questions must be examined specifically.

Before proceeding to the post-war building situation, it may be pointed out that building revival profits by a two-way tendency. Most industries depend on the volume of consumer savings for their post-war demand. Building is not merely a beneficiary of these savings; by the mass employment to which it gives rise, it even generates this consumer demand. It is for this basic reason that construction always has been a favorite of governments with which to start the economic system rolling once more. That Augustus found Rome a city of brick and left it of marble, was perhaps the reason why the Roman Empire enjoyed its greatest revival in his time. Building was used consciously by the British national government in the 1930's to stimulate a revival, in preference to American "reflation."

Housing demand is usually computed by adding the number of new family units and deducting from that total the number of deceased or dispersed family units, and so arriving at net increased requirements. On this basis demand was oversatisfied by some 25% in the 1920's and undersatisfied some 40% in the 1930's; and, on the whole, we must allow for continuing undersatisfaction since 1940. In addition, we must consider the rate of depreciation of buildings erected before the thirties.

On this basis it can be said that there is a shortage of habitation of two and a half million city units, for about ten million people, at the present time. Adding new families and excess of recent births (excessive by over two millions in the last four years), and allowing for urban shifts, a figure of fifteen million is indicated as the minimum, and a more satisfactory estimate, as seen by life insurance experts, would be nearer twenty millions.

A mass of new housing, in and of itself, antiquates a large number of buildings, as the supply of better homes is available to attract tenants from outmoded or even slum residence. In other words, a fifth of the non-farm population of this country urgently requires new housing.

Optimistic Post-War Figures

The top figure of the 1920's (in 1925) provided for 2% of the population. If this figure is taken as basic, a decade of urgent rebuilding is indicated.

Estimates vary from a million units per annum to 1,250,000, as made by governmental agencies; but every estimate is above the peak ever attained before 1929. No government estimate, nor that of building trades experts, calculates that this demand can be met in less than a decade at this rate. In cash terms, that means seven billions a year of building volume.

The reduction of war building estimates by as high as 50% has given some critics the impression that we are overbuilt industrially, and that our problem will be that of excess capacity and of scrapping, rather than extensive building. The high percentage of vacancies in older office buildings was conspicuous as late as 1941, and was largely remedied by government leasing of space. During the war the reduction of lawyer and physician demand for offices, due to their military service, has again left office space begging, as have the diminution in one-man business, agencies, export and tourist companies.

But this estimate overlooks certain fundamentals. Most of the government building has not been in plants useful for civilian production but in those directly military. Of the government inspired

buildings (80% of all construction in 1942), most was for barracks, camps, military fields, etc. If we take note that civilian factory building (the fundamental form of capitalist accumulation) will have been neglected for five years we see a lag, which in money terms may exceed housing requirements. The new types of construction and arrangement discovered by war experimentation, add to the obsolesence of competing plants. The National Association of Manufacturers' survey indicates this. True, some military factory building will be available for conversion, but this calls for just the kind of business that would be a windfall to Flintkote and Johns-Manville, to take two companies for whom repairs are important.

Office Building Recovery

As for office buildings, it must be pointed out that management is increasingly important in industry. Every Census of Manufactures tells the same story: the percentage of persons engaged in accounting, sales, planning, and direction are steadily gaining in proportion to those mechanically employed. With increasing machine technique, with selective production by way of electronics, with economy of transmission of power and use of fuels, this trend should be accentuated. It is true that office buildings have suffered somewhat by the decline in activities of individual lawyers, to take one instance.

But the new system of industrial codes permits of entirely new types of organizations, taking up more space than individual lawyers ever took. In New York, some of these counsellor and negotiation firms, in tax techniques and in industrial relations and who specialize in advising business men on adaptation to the multiple governmental functions, fill whole floors which were recently empty.

Also, government, although it may retreat from its war peak, will always be more important than in pre-war times. The decentralization of government bureaus, some of the most important being located out of Washington, indicates that our Federal Capital will be functional rather than geographical, and that Washington will be the nerve center of government but its work will be localized wherever required. Office building has been the least important part of non-residential building since 1929: Hence there is more ground to be made up here than in any other section of the industry. Western and Southwestern cities will call for much more of this type of construction, which would specifically benefit a company like Otis Elevator.

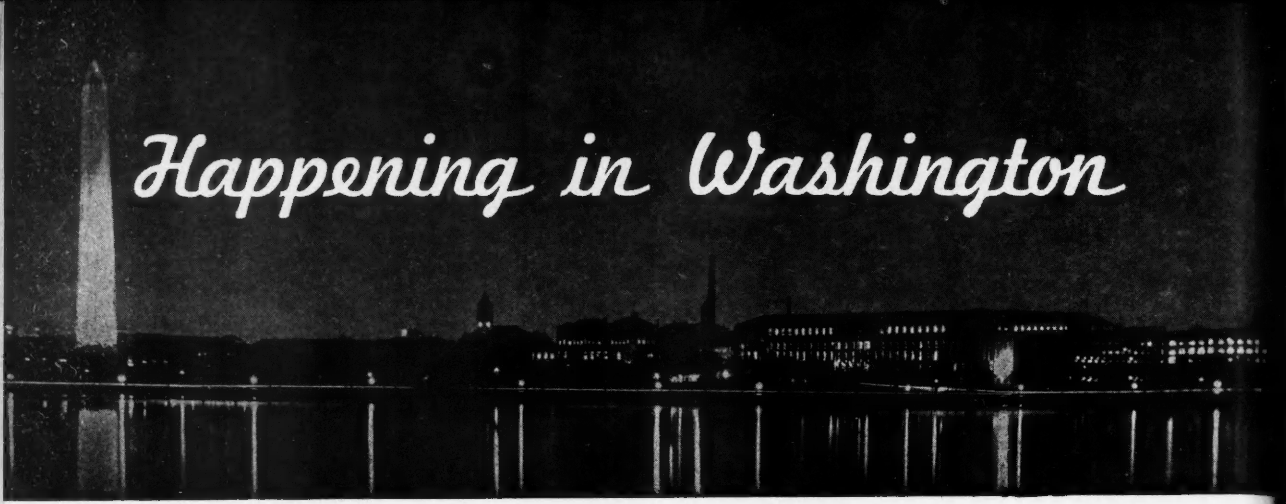
Government building by itself—that is, including public works such as dams—has been modestly estimated at not more than 30% above 1940 in terms of physical units. For the first interim years after peace this appears to be an understatement. Road building, such as would help the cement companies, like Lone Star, has been very much neglected where there was no military reason for its maintenance. The reduction of passenger car traffic has caused local improvement bodies to discontinue more than mere upkeep, and this has also been compelled by shortage of materials, much of which is imported.

Cement has been lavished so greatly on our bases in the West Indies alone that little surplus has been left, and this for an industry suffering normally from chronic over-capacity! This over-capacity may be again manifested; but the temporary rebuilding program, although not predictable for a decade, as with habitation and factory building, may greatly assist cement earning power. Certainly the profit margins will be more than those allowed by the War Department.

Additionally, in the case of building materials companies, the fact that their net held up, after taxes, more than almost any other industrial group, despite the slim margins on governmental business, indicates a much brighter picture when their profit margins will be restored to normal and war taxes diminished. Few industries have had, like building materials, to accept low government margins on more than 80% of their gross volume. The change about from 20% normal to 90% normal would be extraordinarily large. The companies that would benefit least by this change, will be those specializing in public works supplies during the time these are to be used to ease the unemployment transition from war to peace.

The prevailing prices for building material stocks are little affected by cut-backs and by renegotiation because of the general feeling that labor must be utilized during the war and that the profit margins on government business cannot be less where civilian business replaces war contracts. Compared to 1937 figures, of course, the building material stocks are still very reasonable; and (*Please turn to page* 206)

Applying Johns-Manville Roofing



Happening in Washington

Charles Phelps Cushing Photo

By E. K. T.

Small Business seems not to be suffering the economic plight which official and unofficial utterance previously suggested. OWI, scouring the field, could find less than 15 per cent of smaller firms willing to take war orders and unable to obtain them. Smaller War Plants Corporation's reply was: "Distress is not widespread, but where it exists, it is acute. The problem is manageable."

Airplane Production records have reached a new high point at which a levelling off may be expected. Statistics are convincing, but more readily understood is the fact that the War Department will transfer six of its cargo ships from military to mail service. More accent will be placed on craft readily convertible to peacetime service than to designs exclusively military.

Washington Sees:

Congress, or to be more specific the House of Representatives, is playing into the hands of John L. Lewis. The anti-labor bloc is seeking to set aside the Connally Bill and substitute the Smith Bill, an omnibus of bad feeling generated over years of employer-employee strife. Rep. Howard Smith of Virginia, whose name the measure bears, has steadfastly fought pro-labor laws and aided every movement for repeal of the Wagner Act and similar statutes. He was sponsor of the House probe of the NLRB, a mountainous labor that brought forth not even a mouse.

The Connally Bill is no panacea. It is a foundation on which to build a body of law to curb abuses and "get on with the job." It has the additional advantage that it would be almost certain to have Presidential approval. The Smith Bill could pass the House as now constituted. The Senate might block it. But if it goes to the White House it will be vetoed, almost beyond doubt.

A veto would delay corrective labor legislation for at least a year, might postpone it for years. The most serious threat to John L. Lewisism today is the accusation that his tactics have invited laws strict on labor unions. The House seems determined to remove that threat.

Gasoline Crisis in the East is a reality that will be faced before many weeks in a "get tough" policy on the part of OPA. Release of tankers from household fuel to motor fuel service, pipeline and rail movements, won't help the motorist now, will eventually. The gasoline is moving to hopping off points in the war zone, not to roadside filling station pumps.

The 48-Hour Week still is far from accepted national policy, labor union apologists and "critical areas" notwithstanding. Average hours worked in manufacturing industries in March numbered 44.8, five per cent above one year ago; 41.2 hours weekly in non-manufacturing lines. The "line" was not being rigidly held in the meantime: in the same period, manufacturing wages rose 22.1 per cent; non-manufacturing, 26.2 per cent. Not NAM figures, these data came from Secretary Frances Perkins.

Paste-In-the-Hat-Note for post-war reflection when dead cats begin filling the air over the heads of business and industry. Victorious Gen. Dwight D. Eisenhower's first official report included these little-repeated lines: "In this victory the munitions made by American industry, labor and management, played a very important role. There is glory for us all in this achievement."

Food Subsidy Payments transferring cost-of-living notations from the grocer's bill to the tax bill are in for stormy sailing in Congress. The "food at any cost" theory will feel the impact of a GOP assault centered upon claims that the Administration has no legal right to pay bounties to growers, that farmers don't want them, that Congress will reject the idea—assuming the lawmakers aren't short-circuited by RFC. In any event, RFC must itself soon face Congress for appropriations.

Military and naval strategists believe now, as they did in 1917, that defeat of the U-Boat menace will clear the way for ending the war. That goal is within sight. September, say those who should know, will find enemy subs reduced to nuisance value.

Not merely wishful thinking, that forecast has supporting fact. The tremendous shipping which must precede the forthcoming invasion is being carried out with surprisingly low percentage losses. Best evidence of all: Winston Churchill made trans-Atlantic crossings this month by surface ship, instead of by bomber or flying boat.

Conversion to wood of products previously made of metal will release to war service more than five million tons of metal during 1943—saving one ton of steel for each one thousand board feet of lumber substituted.

Expenditures for construction in 1942 topped six billion dollars to reach an all-time high. Shift from construction to production finds wood content in many of the 2,200 items formerly made of metal—even furniture springs.

General outlook for small plants in the war economy is growing steadily brighter. Armed services are earmarking increasing amounts of business for smaller firms, topped by a two hundred million dollar allocation by the quartermaster corps.

Organized labor has picked an inauspicious time to demand representation in the "Little Cabinet." The C I O bid for the Labor Secretaryship was not dignified by official comment and promptly was dropped. Key spots in War Manpower Commission and the War Production Board currently are being "demanded."

Labor will get and will settle for an important policy post in the War Production Board, possibly two. The Labor Production Division, carrying a vice presidency, will be offered. If C I O and A F L cannot agree upon an appointee, each will pick one. They'll divide the duties, each a v. p.

The first wartime test of the Administration's world economic policies brought easy House victory for the State Department reciprocal trade program, unkind words from his own party leaders to Senator McNary, who sought to scuttle it in the upper branch.

That Minority Leader McNary failed to reflect G O P sentiment was indicated when the House republicans voted a clear majority for the Hull tariff method, spurred by the advice of their own party's national committee.

McNary's reasoning was tortuous. Not insisting that trade agreements be regarded treaties, nevertheless he contended for the right of Congressional veto. The power to veto is merely the reverse of the right to ratify; would mean simply that lobbyists need enlist one-half of Congress instead of one-third of the Senate.

The Senate has moved to solve the problem of too many Federal bureaus by creating another—the Civilian Supply Administration. Assuming House and Presidential concurrence, C S A gradually will absorb other agencies in the field of civilian goods allocation.

Enactment of the Maloney Bill has all the earmarks of a vote of "no confidence" in the leadership of Donald M. Nelson in

fields of non-war production and distribution. Senate debate centered upon methods, produced no doubters that a change was needed.

Modification of the April 8 "hold-the-line" order kept the War Labor Board in business. Defection of labor members, probable dissolution of the agency were threatened by inability of the board to make necessary wage adjustments.

W L B was not restored to its original power. "Going rates of pay" for designated labor markets and occupational groups will be established. Thereafter, upping of wages must be limited to the bounds of the Little Steel Formula. In any event, Byrnes retains a potent veto power.

Projected is an advertising campaign to bring together "business men who need products and business men who need production." It will be launched in New York, extended to Chicago, San Francisco, Atlanta, Dallas and elsewhere.

Confident on the basis of actual tests that its program is sound, the Smaller War Plants Corporation will operate it under the ever-watchful eyes of Congress. S W P C will report June 1 the names and locations of distressed smaller plants throughout the country; will file supplementary reports every 60 days thereafter.

Darkest spot in the 1943 outlook is the food situation. With armed forces, civilian population, and half a hungry world to feed, farm labor and machinery shortages come at an inopportune time.

Optimistic forecasts by the Department of Agriculture are being carefully hedged. Farm leaders on Capitol Hill frankly are worried.

War expenditures which stood at $76,500,000 a day when the Japs struck at Pearl Harbor had reached $280,400,000 a day last month. April costs passed the seven billion mark to raise the total expenditure since July 1940 to close to one hundred billion dollars.

Meanwhile costs on the home front were levelling off after a year of constant rise which saw May 9 farm product prices 20 per cent above those of the corresponding date of 1942, commodities other than farm products only 1.7 per cent higher over the same period.

And the nation entered the current year with a combined net public and private debt of $224,000,000,000 as against $181,400,000,000 a year earlier. Private indebtedness was $3,000,000,000 less than one year before.

O P A's first venture into the field of freight rate reduction resulted in an I C C order effective May 15 cutting $350,000,000 annually from the transportation bill of American consumers, much of which will go to the No. 1 shipper—the government.

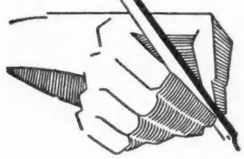
It means a cut of forty-two millions in the food bill, fifty-four millions on fuel, lesser amounts on textiles, leather, apparel, chemicals and drugs.

Look for legislative attempts to bar or regulate the "company store" and the "company house"—adjuncts of many mining and lumbering operations. Mrs. Eleanor Roosevelt has declared them bad; they keep employees in debt, prevent them from being free agents, she accuses.

The "First Lady's" utterances and writings are not official. But she has been the chief White House "leak" on things to come in legislation and policy.

National Labor Relations Board has backed out the legislative issue whether supervisory employers should be embraced among workers qualified to vote in collective bargaining elections, by ruling they should not. That reverses previous stand of N L R B.

Comment On Stocks In the News



BY RICHARD COLSTON

Despite the recent slackening of market activity in general, International Tel. & Tel. and American & Foreign Power continue active trading favorites. This apparently reflects the unshaken belief in many quarters that these companies eventually stand to profit handsomely from the improved exchange situation in Latin American countries expected as a result of the steadily progressing development of Latin American economies under the paternal guidance of Uncle Sam. Though selling currently somewhat below their highs for the year, there has been no evidence of particular pressure during rather ragged market periods.

The premise on which interest in these stocks apparently is based, of course, cannot be gainsaid. Latin-American countries have greatly benefited from American buying of a variety of raw materials while their own purchases in the U. S. are severely restricted, hence sizable dollar balances have accumulated in their favor. However, with the coming of peace, this trend is apt to be sharply reversed. For this reason alone, the potentialities attributed to these equities appear to be of a very long range character and especially in the case of the A.F.P. it may be quite some time until current expectations can be translated into earnings and dividends. The same holds true, though perhaps to a lesser degree, for I. T. & T. Considering the company's great investment in Spain, political developments in Europe may have an important bearing on the outlook. Both equities, from any point of view, are highly speculative. The patient holder may eventually get his reward but as a trading proposition, or even a short-term investment, the risk seems above average.

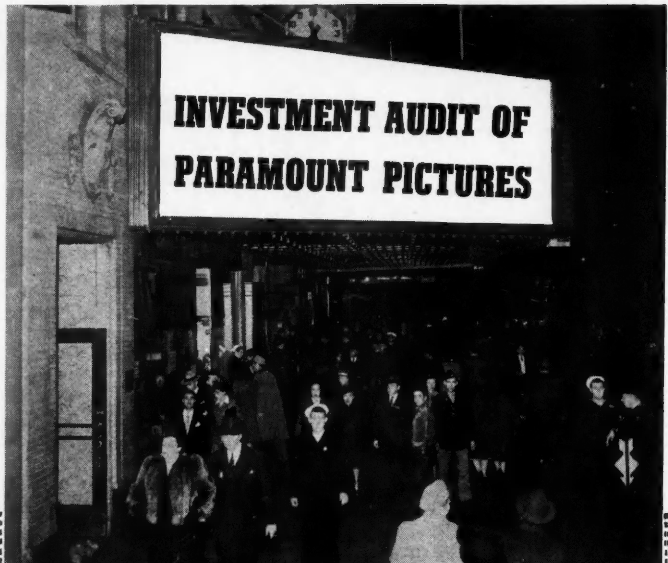
* * *

In spite of its low yield (2.1%) and high price-earnings ratio (about 20), Amerada Petroleum appears to us as one of the more attractive petroleum equities. The company has an impressive record of oil discoveries and its substantial proved oil reserves —in relation to size—warrant the expectation of better than average prospects when drilling activity is once more fully resumed. Oil reserves at present are estimated at about 380 barrels per $100 invested, and good for about eighteen years at the 1941 production rate of 12,312,000 barrels. This points to total proved recoverable reserves of some 221.6 million barrels, or about 281 barrels per outstanding capital share. At a crude oil price of, say, seventy-five cents a barrel, the per share value of proved reserves would amount to about $210.75.

While fairly good, this is by no means an outstanding showing, as such valuations go, considering that the oil is in the ground. However, the worth of these reserves may become very much higher in the event of rising crude prices. Since in many quarters, this is regarded a virtual certainty, over the longer term, the stock appears to have distinct merit on this premise alone. Moreover, additional discoveries will probably bolster the company's reserve position. Incidentally, earnings of late have been constantly on the upgrade and this year's results should compare favorably with 1942 net of $4.15 per share. From the standpoint of immediate return, the stock perhaps has only moderate appeal for the average investor; as a longer term holding, quite apart from its suitability as an inflation hedge, the stock holds promise of substantial future rewards.

* * *

Gulf Oil recently declined 2⅝ points to 46¾ on word of the impending distribution of 764,500 capital shares held by the Mellon family. By this sale, the latter's holdings in the company will be reduced from about 73% to 60%. The stock at present yields only 3.2% but looks attractive over the longer term for more than one reason. The high degree of integration renders the company less dependent on the spread between crude oil and refined products than the average oil unit. In 1941, for instance, the company produced 87% of its refinery runs. While no recent estimates are available, its crude reserves are known to be among the largest held by any domestic company. In 1941 crude output was 86.17 million barrels against 78.41 million barrels in 1940. The company owns a pipe line system of about 8000 miles and has the largest research staff in the oil industry. Its far-flung resources and extensive research in petroleum chemistry furnish a solid background for important future progress. Any possible further price weakness coincident with the aforementioned distribution may well be used for purchase to take advantage (*Please turn to page* 216)



BY GEORGE L. MERTON

IN A market in which low-priced stocks have been features, the advance of Paramount has seemed superficially to resemble that of other stocks of the same price category. It has risen from 4¼ in 1940, steadily forging to above the 27 level, rivalling its high of 28¾ in 1937. But however this rise may appear to resemble that of many other low-priced stocks during the same period, the advance in Paramount has been soundly based, and has been among the most warranted in its group.

For the Paramount of 1943 is in an altogether different investment position from the company whose common stock made the high of 28¾ in 1937. Its capital position is greatly improved, its management is of an altogether different calibre, its pictures, once behind the industry, are today both popular and daring and their direction is extremely original and competent.

Paramount suffered for years from the heritage of excessive theatrical properties, acquired at uneconomically high prices. Today its possession of this greatest chain in America of exhibiting houses is, of course, a great asset when theatrical attendance is at a new high. The questions raised as to the investment position of Paramount do not concern its present price, but rather what possibilities there are in the stock. Has it much further to go? Or should the long-term investor, who has seen it go up 600% in less than three years, be thankful for mercies received and place his money elsewhere? For, apart from reactions in the market as a whole which may affect its price, the common stock inherently has little to fear from downward possibilities.

Paramount Pictures income rose from 101 millions in 1941 to 123 millions in 1942 and appears to be still gaining. Allowing for other income, its total receipts have risen from 104 to 127 millions. This gain of 23 millions in gross receipts was offset by less than 5 millions increase in expenses, so that gross operating profit was nearly doubled, having increased from 19 millions to 37 millions. Nearly the entire gain in receipts was carried over into operating profits.

It is this feature that has been the mainspring of the stock's market popularity. If further gains in gross income are achieved, as the present trend indicates, and the efficient management can continue to hold down costs, permanent corporate earning power may bear no relation to the past profits history and the stock ought to advance in investment status. Notable among the economies effected were film distribution costs, which were reduced even on the larger volume, and amortization of prints and negatives (one of the heaviest charges in any producing company) was not materially increased. The production schedule, in other words, was not much increased: rather it was a similar output of pictures which produced a greater revenue.

Included in the 1942 and 1943 income are funds which, since October 1942, have been released to Paramount by the British government. It is the accounting practice of the company to include (in its consolidated statement) only such foreign income as is actually made available in American dollars. As theatrical attendance in Great Britain is enormous, owing to traffic restrictions and the desire for amusement under the stress of imminent peril, this free dollar income has considerably improved the working capital position.

On April 26, 1943 the preferred stock of the company was retired at the rate of seven shares of common stock to one of preferred. The net result

of this elimination of preferred stock will be to prorate the 1942 earnings to total common stock outstanding down to $3.84 per share, as against the indicated $4.70 per share on the former capitalization. At 27 the stock sells at seven times latest annual earnings. As these earnings are the highest recorded in many years and the price ratio would be excessive on the basis of past earnings experience over a series of years, the question of future profits is alone significant for future quotation.

Motion picture attendance is still on the increase. The induction of millions of former customers into the armed services has been more than made good by expanded payrolls and diminished opportunity for week-end automobile use. Nevertheless, attendance cannot be expected to increase spectacularly from now on. It is true that the motion picture industry, unlike most other consumer enterprises, has not as yet been faced with the threat of ceiling prices, and the moderately advancing costs of production and exhibition can be offset by increased admission prices. Experience shows that in war times there is a very wide range for price increases for entertainment, which runs considerably above the resistance level shown to prices for food or clothing. Nevertheless, if the policy of reducing the spiral of rising prices can be extended as a measure of overall financial control, the possibility of price ceilings for admissions cannot be altogether ruled out. This is so contingent, however, that the investor can safely disregard it, for the moment. But taxes are another matter.

The Tax Threat

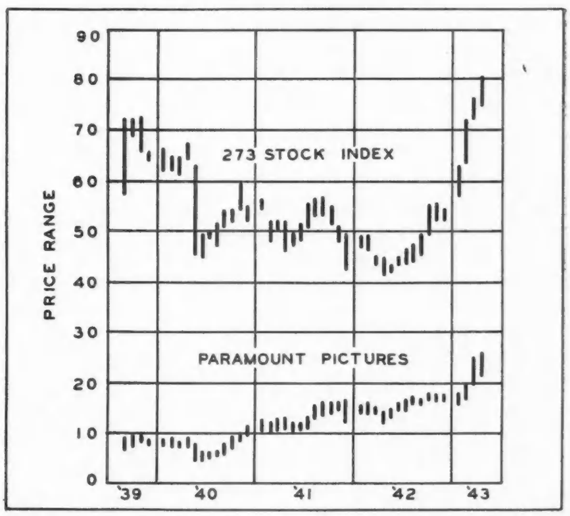
The entertainment industry is always the favorite target of the Treasury, and as the need to raise more revenue from current taxation is increased, the possibility of severe additions in the admissions tax cannot be ruled out. Whether that would cut into net attendance cannot be demonstrated. Until now it has not been a deterrent. It may not be one, if it is increased no more than another five cents or so, so long as employment is booming. Here too, the investor is practically justified in disregarding this factor, until there are storm signals. In 1941 taxation on Paramount's consolidated income was $3,744,000; both here and abroad. These taxes rose to fully $16,129,000 for 1942. True, it was not enough to cancel the nearly doubled profit. That profit rose, after taxes, from 9.2 millions to 13.1 millions, or, in other words a gain of 18.3 millions in operating profit was whittled down to 3.9 millions net gain, but net gain there was. But as the impact of taxation advances proportionately more than increased net, it is probable that 1943 showing of Paramount, even allowing for somewhat augmented gross, would not be materially greater than $4 per share on the new capital structure.

For the investor, then, the principal attractions of Paramount must rest in an increase of its dividend and in long-term post-war prospects. The prevailing dividend rate of $1.20 per share will call for approximately 4 millions a year. It can be largely added to without affecting the working capital position of the company in any notable way. U. S. A. and Canadian cash assets, quick liquid receivables and immediately realizable investments are about 27 millions, not counting film inventories for immediate release or already released. Quick current liabilities and tax reserves were only about 14.3 millions. This net quick position of 12.7 millions, allowing for earning power no greater than last year, should permit the increase of the dividend to a $2 basis or even a $2.50 basis, without the current needs of the corporation being affected in any present or prospective manner.

The only reason that the dividend rate might not be materially advanced would be the choice of a debt retirement policy in its stead. The debt burden of over 30 millions, while not excessive, whether measured against earning power or productive assets, is covenanted to be reduced (in the case of the 20 million outstanding debentures) by 15% of the consolidated net earnings per annum up to 10 millions and by 20% above that figure. Hence an additional increment of earning power is added to the common stock every year. This debenture debt has been largely substituted for former current note obligations. This consistant refunding and debt improvement measures the increasing credit standing of the company. As the senior debt is reduced and the preferred stock has been eliminated, the common stock will, in that case, take on much more of an investment status, since it will be deprived of "leverage" possibilities, which accentuates both the increases and declines of Paramount net earnings.

For the investor, then, the present position of Paramount is excellent. Its dividend is in line for increase, its earnings tendency is upwards, its films are improving, its liquid assets position strong, its foreign income largely disposable, its debt structure diminishing, its capital position simpler, its management praiseworthy. If the (*Please turn to page* 213)

Market Record of Paramount Compared with Market Average.



FOR PROFIT AND INCOME

Douglas Aircraft

At around 68, Douglas Aircraft is selling for about $1.24 a share more than the company has earned in the past three years ($66.76 a share), at 76% of its book value ($88.00 a share), at a price lower than its high in any year since 1935, and at only $10 a share above net working capital of the company at the end of last November. The stock yields 7.3% on the basis of that $5.00 dividend paid in each one of the past three years; and the dividend was earned 3½ times in 1940 and 1942 and 6 times in 1941. Back in 1936, when earnings were $1.76 a share and the stock paid no dividend, the issue had a book value of $19 a share and the shares sold at one time above 80. The war has added $65 a share of book value ($25 a share of it cash) to the stock.

The merit of Douglas Aircraft as a commitment in the growing aircraft industry does not end with these facts. The company has only 600,000 shares issued, giving it the smallest share capital of any major unit in the business; it has had more experience in civilian transport manufacture than any other company; and it has a first class management.

Dresser Manufacturing

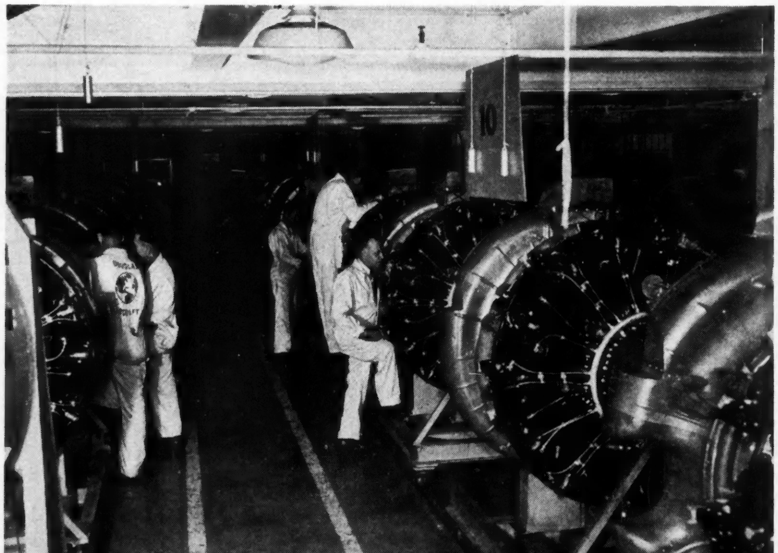
Earnings of Dresser Manufacturing Company for the six months ended April 30th are estimated at from $3.10 to $3.70 a share against $1.62 a share for the same period of the previous fiscal year. Here is another growing company with a small capitalization. It has only 335,000 shares of capital stock issued against a sale volume of $28,800-000 in the year ended October 31, 1942. A small capitalization makes a stock responsive to growth and earnings.

Dresser's diversified business makes the company an invesetment in (1) the oil well supply trade, (2) the building industry, (3) public utility expansion, (4) railroad construction, (5) any industry where compressors are used, and (6) the post-war export markets. As an example of the aggressiveness of the management, it may be stated that Dresser catalogues have been distributed in practically every plant in Soviet Russia from which country substantial orders have been received.

Standard Oil of Ohio

Standard Oil of Ohio may be regarded as a peace stock. The company is primarily a refinery and distributor of petroleum, and therefore is more hard-hit by rationing than most of the producers or the fully integrated companies. The stock, which paid $2.25 a share last year, sells around 43 and has a book value of around $72.70 a share. Earnings in the first quarter were $1.40 a share. This suggests that 1943 earnings will not reach the peaks of $6.63 a share earned in 1942, $7.47 a share earned in 1941, $7.44 in 1940 or $6.64 in 1939; but earnings this year will be at least 10% on the current price of the stock.

The company is the dominant refiner and distributor in Ohio, handling about 25% of the gasoline in that state. Its refineries have a daily capacity of 77,500 barrels, and its distributing facilities consist of almost 5000 outlets. The stock, on a long pull



Testing plane engines in a Douglas Aircraft plant. Douglas is one of most "interesting" aviation stocks and may have a brighter future than the present market consensus allows for.

basis, looks cheaper than many other oil shares.

Thompson Products, Inc.

This important producer of valves, pistons and connecting rods for aircraft and automobile industry motors has no troublesome reconversion problems, faces a big deferred demand for its products in the automobile industry, and is enjoying most satisfactory war business. In the first quarter of this year, net earnings were $1.41 a share against 33 cents a share in the first quarter of 1942. The company earned $6.49 a share in 1942 after very heavy taxes, and it has not earned less than $2.58 a share in any year but one (1938) since 1934. This makes the stock, recently selling around 30 to yield 5% if the dividend remains at $1.50 a share, look very reasonably priced. The book value of this issue has doubled since the end of 1938 and now stands at between $36 and $37 a share. It is (1) a war-or-peace stock, (2) a growth issue, (3) a replacement industry issue, (4) a deferred demand issue, and (5) a selling-at-less-than-book-value equity.

Years of Rubber Industry Prosperity Assured

Some people have been marveling at the manner in which the rubber shares have advanced. As compared with last year's lows such stock as U. S. Rubber common, Goodyear and Goodrich are up from 200% to 300%. The advance really is very logical. These stocks sold at absurdly low prices at the time of the Japanese attack, and part of their recovery has been in the nature of an automatic rebound. The companies represented have been enjoying excellent war earnings in spite of the loss of much of their civilian tire business, and per share earnings have not suffered during the period of low rubber supplies. The war has developed many new uses for rubber and new things for the rubber companies to do. It has also changed the rubber supply outlook by bringing us synthetic rubber which is likely to result in a great reduction in inventory risks in the future. At the same time a huge deferred demand for tires, both for replacement and for original equipment, is being accumulated. The rubber companies have had four good years in succession, and the outlook is for at least three or four more. A succession of seven or eight good years means a good deal to the financial stability of any industry. Rubber shares should be held.

Recent Earnings Reported for a Dozen Peace Issues

	Period	Earned Per Share 1943	Earned Per Share 1942	Recent Price	Range 1942-1943 High	Range 1942-1943 Low
American Stove	quarter ended 3/31	$0.23	$0.59	16	17	7½
Atlantic Refining	quarter ended 3/31	0.45	0.41	24	24¾	14⅜
Canada Dry Ginger Ale	6 mos. ended 3/31	1.34	0.81	22	23⅞	9⅛
Commercial Credit	quarter ended 3/31	0.82	0.90	36	37¼	16⅛
Ferro-Enamel	3 mos. ended 3/31	0.27	0.19	15	16	7⅞
General Time Inst.	12 wks. ended 3/27	0.06	0.32	19	19	11
Gillette Safety Razor	3 mos. ended 3/31	0.24	0.23	9	9¼	3
McGraw Electric	12 mos. ended 3/31	1.80	3.22	24½	24⅞	14
Motor Products	9 mos. ended 3/31	2.00	1.74	14	16¼	6¼
Philco Corp.	quarter ended 3/31	0.56	0.43	22	22¾	7⅝
Standard Oil of Ohio	quarter ended 3/31	1.40	1.33	43	44⅞	25¼
United Air Lines	quarter ended 3/31	0.65	0.09	26	28¾	7⅞

Yields on Bonds

There is a constant demand for reasonably safe bonds offering a better yield than 3¼% to 3½%. Of course higher return than 3¼% to 3½% cannot be obtained without buying what may be called "risk" securities. Probably the risk over the near term, however, is not very high in buying bonds like New York, Delaware & Western 4's, 1973 around 71, Delaware & Hudson 4's, 1943 (now being extended) at around 72, Cities Service 5's, 1961 around 91, Central New England 4's, 1961 around 81, and Chicago, Milwaukee, St. Paul & Pacific 4's, 1989 at around 62. The two last named issues represent roads which are in reorganization, but the new securities to be obtained should be quite high grade.

Emerson Electric Manufacturing

The new management of Emerson Electric Manufacturing Company is expected to make rapid progress in the years after the war in the field of small sealed motors for household equipment. This old company for years specialized in the manufacture of electric fans, which led it to establish itself in the small motors field. Other things now threaten to become much more important than fans, and sales volume in the post-war years is expected to be many-fold larger than in the pre-war period. Last year's sales, stimulated by war orders, reached $52.8 million against $5.4 million in the largest pre-war year.

Emerson Electric Manufacturing is another one of these growth companies which is not drowned in stock. Aside from 8,831 shares of $7 preferred, it has only 388,295 shares of common issued. This common stock, which earned $1.57 a share last year and lately has been paying 10 cents quarterly in dividends, currently sells on the New York Curb Exchange at around 8½.

Miscellaneous Comment

A broker points out that the back dividends accumulated on the preferred shares of American & Foreign Power are equal to about $135 a share on the common stock of that company which considerably reduces its attractiveness as a speculation . . . The number of investment counsellers who are advising the purchase of sugar shares is much larger than a few weeks ago . . . Continental Motors, it is said, may be a factor in the household equipment trade after the war; the company's balance sheet suggests that earnings in recent years have been larger than those reported in the income account.

Another Look At . . .

BARBER ASPHALT — OLIVER FARM EQUIPMENT — SIMMONS COMPANY—UNITED MERCHANTS & MANUFACTURERS—U. S. PLYWOOD

BY THE MAGAZINE OF WALL STREET STAFF

Barber Asphalt

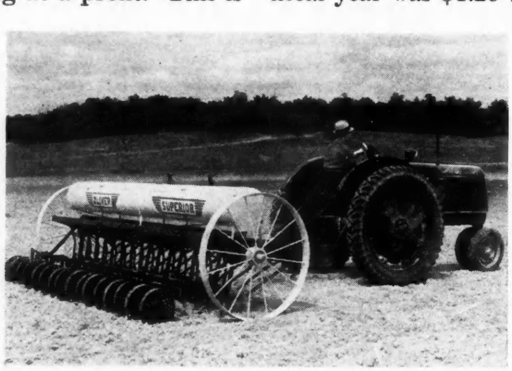
Early this year we recommended this stock, then selling at 12⅝, as an attractive long-term speculation. It has since reached a high of 20½ and is currently selling around 18, an advance of some 55%. The company in 1942 incurred an operating loss of $416,179 and reported a net deficit of $311,175 against a net income of $257,679 in 1941. This development was wholly expected; the loss was primarily due to the shortage of tanker transportation which forced the company to discontinue asphalt and petroleum refining.

By converting operations to shipbuilding, the company is currently operating at a profit. This is borne out by the first quarter statement which shows a net profit of $149,934 equal to $0.38 per share compared with a deficit of $21,379 in the first quarter of the preceding year. The company's shipbuilding subsidiary, the New Jersey Shipbuilding Co., formed last year, has completed its shipyards at Perth Amboy, N. J., some time ago and is now working on substantial orders from the Navy. Negotiations for additional Navy work is said to be in progress. While prospects of the shipbuilding venture naturally cannot be appraised with accuracy, income from that source will be the prime determinant of war-time earnings.

On the other hand, the company's expanding petroleum refining activities will be an important post-war factor. In recent years, sales of petroleum products accounted for about half of the total; this proportion is likely to increase after the war when fuller exploitation of the company's valuable properties in Venezuela can be undertaken. In sizing up the more immediate as well as longer-term prospects, the competency of the company's new management is a factor that augurs well for the future. The stock, in discounting this, has already come back a long way from its 1942 low of 6⅛ but even at present advanced levels, further appreciation is indicated as dividend possibilities become more concrete. In view of the company's small capitalization, the capital leverage factor should be an important aid and enable dividend resumption sooner than perhaps expected.

Oliver Farm Equipment Co.

During the past few months this stock displayed marked strength, advancing from 29½ in early January to 42⅜ and selling now around 40⅝, a sizable percentage gain. The report covering the fiscal year ended October 31, 1942, was rather better than expected with net per common amounting to $4.87 against $4.93 for the ten months ending October 31, 1941. The operating profit for the 1942 fiscal year was $4.29 millions against $2.60 millions in the preceding period but net income was severely reduced by a tax provision of $1.20 millions and creation of a contingency reserve of $1.50 millions. War-time sales are expected to continue high with restriction of regular output compensated for by heavy armament orders to which almost the entire plant has been adapted. Partial relaxation of curtailment of farm implement output—to stimulate farm production—should bolster 1943 earnings as margins from such business are considerably better than from Government orders. The dividend which in 1941 was resumed with a payment of $1.—last year was increased to $2.—but presumably will continue conservative in relation to earnings in view of outstanding bank loans maturing in the amount of $375,000 annually through 1948.



One of the Many Products of Oliver Farm Equipment.

Past earnings were erratic reflecting the leverage provided by heavy overhead. However, the company in recent years steadily improved its trade position and hence the post-war profit outlook is viewed optimistically; it is expected the company will be in a position to benefit fully from future opportunities. At present the stock is selling considerably below net current assets value of around $54 per share, and far below its 1937 high of $73—though no dividends were paid then. As a result of substantially increased profits since 1939, the financial position today is greatly strengthened with working capital

amounting to $20.12 millions against $16.62 millions in 1941. Reconversion problems are relatively small, and over the longer term the stock holds promise of further appreciation reflecting post-war possibilities.

Simmons Co.

Excellent peace-time recovery prospects of this "depressed war casualty" continue to lend it long-term appeal. The existing potentialities were reflected in a good percentage rise so far this year, the stock advancing to a high of 25¾ from 16⅛ and currently selling at around 24½. This is over twice the 1942 low of 11⅞. Sales in 1942 increased moderately reflecting heavier Government work but rising costs cut operating income to $8.77 millions compared with $9.50 millions in 1941. Net came to $2.10 per share against $3.03. The company increased its contingency reserve from one million to $1.7 millions and working capital was further strengthened. The stock now yields about 5% on the basis of the 1942 dividend of $1.25 which is expected to be continued this year. No substantial increase in net sales is believed probable for the duration due to materials restrictions; the bulk of current business consists of Government contracts and margins in 1943 therefore will be narrower since the more profitable bedding lines now are almost completely suspended. Selling at less than half of its 1937 high, the stock should further advance as peace prospects become more concrete. Considering its solid background and fair yield, the stock appears still attractively priced for long-term commitment.

American Viscose Co.

Rayon Staple Fibre Is Setting New Output Records

United Merchants & Manufacturers Co.

Despite an advance since February from 16⅜ to about 26¼, this stock still looks attractive for longer term purchase. Yielding about 6.6% and with equity per common amounting to $34.96, prospects for further appreciation appear favorable and in recent days, substantial buying was observed in the market. In spite of sharply higher taxes, the company's earnings were excellent; net per common share for the second half of 1942 was $4.04 compared with $3.53 in 1941 and $6.41 for the entire fiscal year ended 6/30/42. While taxes and renegotiation are uncertain factors in appraising results for the full 1942/43 fiscal year, no material change is anticipated from the $6.41 per share realized in the preceding period, unless contingency reserves should be vastly increased. These now stand at one million against $400,000 in 1942.

The company's policy of dividend restriction to strengthen its financial position has further bolstered working capital which reached a record high of $11.47 millions against $9.43 millions previously. There are still bank loans outstanding in the amount of $5.68 millions but it is understood the company is planning to sell $5 millions of preferred stock to retire an equal amount of bank debt. While earnings have probably reached their peak and future growth is unlikely in view of limitations on margins occasioned by price ceilings and high taxes, dividends in the future may be somewhat higher as a result of earlier repayment of part of the bank debt and funding of the remainder. $1.75 was paid last year, against seventy-five cents in 1941. At a price-earnings ratio of about 4/1, the stock looks conservatively priced. Continued growth in the use of rayon fabrics, one of the company's principal products, promises further long-term sales expansion though yearly results after the war will vary with the usually sharp cyclical swings in textile operations generally. The company is now working at capacity to supply military and civilian needs and operating profits for the duration should remain substantial. The management's conservative financial policy and the company's dominant position in the textile field are factors which speak well for the future.

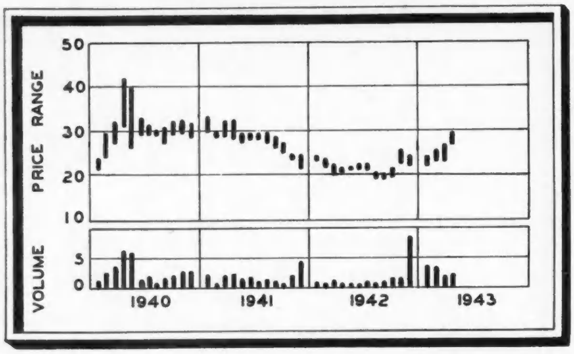
U. S. Plywood

While operations of this company continued to expand as a result of heavy war orders, the earnings progress of late has failed to keep pace owing to substantially higher costs, due in part to ceiling prices. For the half year ended October 31, 1942, net sales amounted to $8.55 millions against $6.62 millions for the corresponding 1941 semester, an increase of 30%. Costs however rose 43% resulting in the paring of operating income to $1.14 millions from $1.22 millions. Net per common was $1.30 against $1.98. This compares with $3.85 per share for the entire fiscal year ended April 30, 1942.

Reflecting in part capacity operations which are likely to continue for the duration, the stock so far this year rose from 32 to 42¼ and is currently selling around 40. Further appreciation prospects appear somewhat clouded in view of the retardation of profit growth and will primarily be based on the post-war outlook which is judged optimistically. The company, a leader in its field, should benefit materially from the increased popularity of plywood in many industrial fields and its ability to effect substantial improvements in production processes should enhance post-war prospects. Moreover, the company's new plastics division bids fair to become an important money maker. Finances are adequate, thanks to a conservative dividend policy which aided in retirement of a small (*Please turn to page* 216)

Six Small Companies With Large Earnings

MASTER ELECTRIC CO.



BUSINESS: An electric equipment manufacturer, this company makes primarily electric motors ranging in size from 1/10th to 150 horsepower. This line, which accounts for about 90% of sales, is made in a wide variety of types and for a wide range of applications, for instance single and polyphase AC and DC motors, unibrake, fan-cooled, multiple and variable speed motors. They are mostly of the industrial type and used to power production machinery such as machine tools, hoisting gear, conveyors, etc. Other products are generators up to 150 kilowatt capacity, also heat regulators, electric hoists, electric hammers, electric control equipment and small appliances such as electric grinders. The company has some 4700 customers in over seventy major industries, many now heavily engaged in war work.

FINANCIAL POSITION: Through retention of a substantial part of earnings, ample working capital was built up and maintained in the past despite considerable plant expenditures. More recently, however, capital requirements increased steadily, in line with heavier war work undertaken, and to meet this demand, the company in March 1942 sold three million dollars ten-year 3¾% debentures. Sales in 1942 increased materially and earnings rose to $4.85 a share, against $3.86 in 1941 and peace-time peak of $2.87 in 1937. For the first quarter of 1943, net per common was $1.51 compared with $0.62 last year.

OUTLOOK: For the duration, volume should continue at record levels, reflecting in part increased output of electrical aircraft products which were added to operations in 1942. Moderate plant additions may become necessary to handle incoming orders. Apart from sustained earnings prospects over the nearer term, the company has good post-war possibilities. Though supplying primarily capital goods industries, the normally marked cyclical variation inherent in this type of business can be expected to be lessened materially by the secular growth trend affecting the demand for electrical equipment and appliances.

MARKET ACTION: Although a supplier of the highly cyclical capital goods industry, the stock in the past displayed rather less than average volatility, reflecting the steady growth trend of the electrical industry, as evidenced by rising earnings and a satisfactory dividend record. At present, the stock is 63% above its 1942 low while our Index is up 80%; compared with their 1937 highs, the stock is 19% above that point while our Index is still 35% below.

COMMENT: Recent price—31. Any reduction in operating income due to renegotiation should be largely offset by lower tax liability but heavy working capital requirements will probably limit dividends for some time.

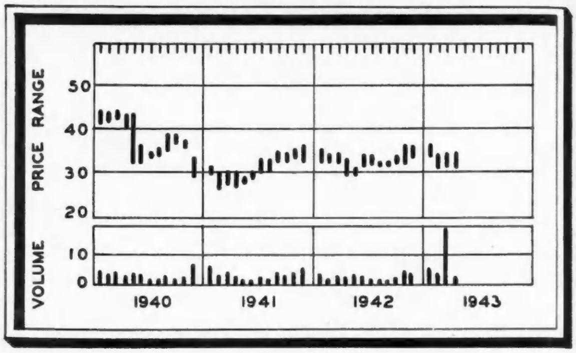
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends*	Price Range
1934	$1.583	$0.156	$0.87	$15.00	....
1935	2.074	0.207	1.15	14.97	....
1936	3.218	0.429	2.10	0.55	21 -14⅛
1937	4.604	0.601	2.87	1.55	25⅞-13¼
1938	2.867	0.347	1.65	1.15	18½-11½
1939	3.998	0.691	2.86	1.70(b)	28⅞-14¼
1940	5.466	0.793	3.18	2.40(a)	42 -21¼
1941	9.488	0.965	3.86	2.40	33 -21½
1942	15.253	1.211	4.85	1.80	25⅛-19

* 1934/35 on $100 par stock; thereafter on $1 par stock. (a) Plus 3½% stock dividend. (b) Plus 15% stock dividend.

Thumbnail Stock Appraisal

NATIONAL OIL PRODUCTS CO.



BUSINESS: This concern is essentially a chemical organization: maker and processor of fats and oils marketed under the trade name "Nopco" and used chiefly for industrial purposes, notably by the leather, textile, paper and metal working industries. A second and increasingly important line is the manufacture of a wide variety of animal, vegetable, fish and mineral oils and the production of vitamin concentrates both for human consumption and as admixtures to poultry and animal feeds. A third line consists of shampoo and cosmetic items sold under the well known trademark "Admiracion."

FINANCIAL POSITION: The company in recent years underwent steady expansion requiring considerable funds. Initially, retention of a goodly part of earnings enabled it to cope with capital needs but more recently, it was found necessary to raise additional funds by means of bank loans and the sale of debentures. In 1940, bank loans then outstanding in the amount of $1.2 millions were funded by the sale of fifteen year 3¼% debentures. In April, 1942, an additional million debentures were sold; of the proceeds, half was used to repay notes payable, the remainder to strengthen working capital. The latter currently amounts to $4.22 millions of which $2.03 millions represent inventories. Cash holdings are small.

OUTLOOK: Difficulties in obtaining supplies, notably fish livers for its vitamin division, and rising materials costs resulted in declining net income in 1942. This trend is likely to continue unless the supply situation becomes easier. Future prospects, over the longer term, appear bright, however, as the company appears destined to become an ever more important factor in the vitamin and pharmaceutical fields. Last August, it acquired for $125,000 cash, from the Alien Property Custodian, two formerly German-controlled concerns, Rare Chemicals, Inc. and the Boehringer Co. The former owns a plant for the manufacture of medical and pharmaceutical specialties related to the vitamin and hormone fields. The latter's assets consist of numerous pharmaceutical patents and formulae. This acquisition should enhance the company's standing and long-term prospects.

MARKET ACTION: Because of the conservative dividend policy, the stock showed less than average volatility and currently is far behind the market, having risen only slightly above its 1942 low, apparently reflecting uncertainty over the near-term dividend outlook. This will probably continue as an important market factor for some time.

COMMENT: Recent price—30¾. Yielding about 3% on the basis of the $1 dividend, the stock at present has only long-term speculative appeal. While future prospects are viewed optimistically, early materialization of indicated benefits may be precluded by further capital needs to carry out the company's development program.

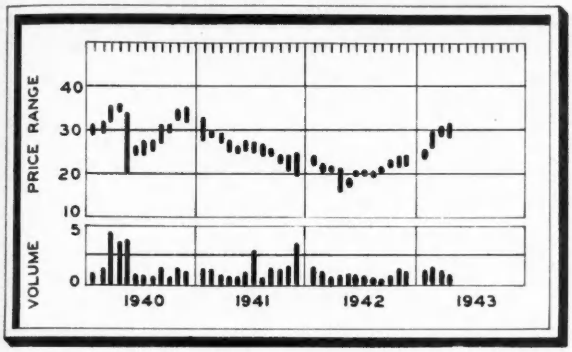
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934	....	....	$0.72	$0.80	....
1935	5.241	0.337	2.17	0.60	....
1936	6.422	0.559	3.31	2.80	36¾-25¼
1937	6.677	0.438	2.53	2.10	47 -17½
1938	6.111	0.401	2.23	0.90	38 -15
1939	7.728	0.700	3.89	1.85	46 -28½
1940	8.274	0.697	3.81	1.35	38¾-28¾
1941	11.785	0.869	4.03	1.95	36 -26
1942	12.149	0.520	2.41	1.00	36 -29½

Thumbnail Stock Appraisal

Six Small Companies With Large Earnings

NOBLITT-SPARKS INDUSTRIES



BUSINESS: Company is a manufacturer of automobile parts and allied products, the great bulk of which is sold as original equipment to leading automobile makers such as Ford, Chrysler, General Motors, Studebaker and others. More than half of normal output consists of steel tubing, rear-vision mirrors, mufflers, radiator and exhaust pipes, ventilators, automobile heaters and automobile jacks. Other products, widely distributed to the wholesale trade under the trade name "Arvin," are automobile and home radios, electric room heaters, windshield defrosters and a line of metal furniture added in 1940. The company is now primarily working on war orders, including aircraft equipment and special ordnance items; for the duration, this business will constitute the dominant earnings factor.

FINANCIAL POSITION: $1.3 million additional stock was sold in 1937 to bolster the capital position which since has remained ample despite large subsequent plant expenditures. Sales in 1942 about held their own but net income declined, reflecting narrower margins from war contracts and the creation of a special reserve. Because of economies flowing from large scale operations, 1943 results should be quite satisfactory. Past earnings have been substantial, partly reflecting the leverage afforded by a small capitalization.

OUTLOOK: War work will insure capacity operations and good earnings for the duration. Thereafter, demand for the company's products will in the main follow the trend of automobile production, because of the importance of the original equipment business. Through diversification, however, the company has been endeavoring to lessen this dependence on its principal client industry; this should become increasingly evident after the war. Moreover, the company normally enjoys a good replacement business which is an important aid in balancing sales in off years. Also it is expected that a good part of the aircraft equipment business will be retained. The company's expanded facilities should enable it to participate fully in the excellent post-war prospects shaping up in the consumer durable goods field.

MARKET ACTION: The stock, on the whole, fluctuated fairly closely in line with the general business cycle prior to the war. Latterly, movements were somewhat wider, due at first to the loss of the company's normal business as a result of the war, and later reflecting the sharp increase in war orders. At present, the common stands about 120% above its 1942 low while our Index advanced 80%. On the other hand, the stock is still 43% below its 1937 high while our Index is 35% below that point.

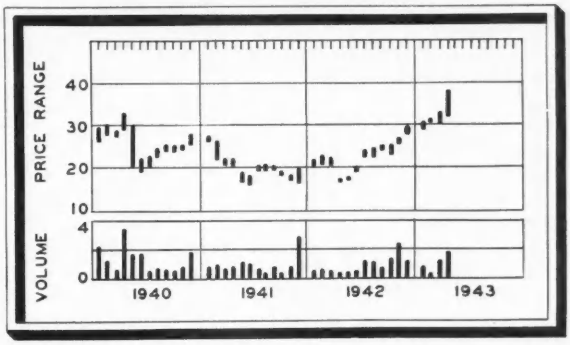
COMMENT: Recent price—33⅛. Due to the nature of its business, post-war adjustments should be rather less troublesome than for the average parts manufacturer. Selling only moderately above the equity per common of $26.53, the stock, yielding 6%, has considerable speculative merit.

Long-Term Record

Year	Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934	$5.369	$0.302	$2.02	$1.30	....
1935	7.760	0.557	3.72	1.27	34⅝-13½
1936	9.353	1.044	6.57	3.62	45 -26
1937	10.195	0.924	4.85	3.00	58 -17
1938	5.123	0.393	2.07	1.00	26¼-12
1939	6.834	1.003	4.23	3.00	35 -16¼
1940	10.850	1.105	4.66	3.10	36 -20½
1941	15.191	1.095	4.61	3.50	32¾-19⅜
1942	15.866	0.861	3.63	2.00	23½-15¾

Thumbnail Stock Appraisal

OUTBOARD MARINE & MFG. CO.



BUSINESS: This company is the largest manufacturer of outboard motors including models varying from one cylinder, one-half horsepower, to four cylinder, 33 horsepower, which are sold under the trade names "Elto," "Evinrude" and "Johnson Sea Horse." Other products are drainage pumps, fractional horsepower gasoline motors for refrigerators, washing machines, power mowers, pumps and a variety of industrial engines; also small engine-driven generators, space coolers and bicycle motors. Canadian sales normally account for about 20% of total volume. At present, the company is fully engaged in war work, principally aircraft engines and parts for which it has large unfilled orders. Considerable investments have been made in tools and in the development of a die-casting department.

FINANCIAL POSITION: Since consolidation of the predecessor companies in 1936, the firm has consistently maintained a strong financial position. Rapidly increasing war work, however, required additional capital and in 1942 a revolving credit of $6 millions was arranged with a group of banks; thereof $4 millions are still outstanding, the remainder having been repaid since. Earnings in the past showed a steady uptrend and dividends were fairly liberal. Because of renegotiation, margins this year will be narrower but nevertheless, 1943 earnings are expected to exceed $5 per share compared with $3.78 in 1942.

OUTLOOK: The company should do well throughout the war, despite rising taxes. First quarter earnings were $1.33 per common against $0.93 last year. The post-war outlook will essentially vary with consumer purchasing power but the company's strong trade position assures full participation in available business; this should be large, considering the heavy pent-up demand, both new and replacement, and the sharp increase in purchasing power as a result of war savings. The recreational, as well as utilitarian, uses for the company's products promise well balanced sales prospects.

MARKET ACTION: Reflecting stable earnings and liberal dividends, the stock displayed less than average volatility in the past but recently outdistanced the market on the upswing, apparently discounting both near-term and post-war prospects. Today the common stands 122% above its 1942 low and 33% above its 1937 high; in comparison, our Index is 80% above its 1942 low and 35% below the 1937 high.

COMMENT: Recent price—37½. Dividends this year are expected to continue at the annual rate of $2.25 per share, yielding 6%. Though selling at the highest price since listed in 1936, the stock has considerable attraction for the long pull.

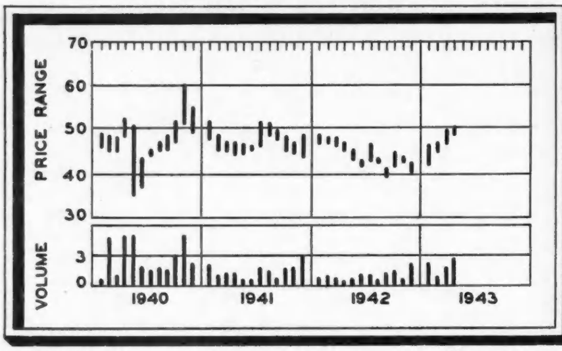
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934	....	....	$0.29	Nil	....
1935	....	....	0.37	Nil	....
1936	....	0.679	2.29	Nil	....
1937	6.843	0.940	3.17	2.50	28 -12¾
1938	6.649	0.714	2.44	1.85	22½-10
1939	8.267	1.036	3.52	2.15	26½-16½
1940	9.987	1.314	4.44	2.25	32¾-19
1941	13.027	1.519	5.11	2.25	26¼-16
1942	16.000	1.122	3.78	2.25	27⅞-16⅞

Thumbnail Stock Appraisal

Six Small Companies With Large Earnings

ACME STEEL CO.



BUSINESS: This non-integrated but compact and efficient unit of the light steel industry concentrates on the manufacture of hot and cold rolled strip steel and specialties made from it, such as container reinforcements, bale ties, mesh conveyor belts, hoops and bands. Normally, volume of dollar sales is about evenly divided between strip steels and specialties but the proportion of the latter is gradually gaining. The automobile industry is the largest single customer, normally taking over half of the strip mill output; other accounts include virtually every type of manufacturing activity. The company's mills have an annual capacity of 580,000 tons of steel strip and operate from purchased semi-finished steel.

FINANCIAL POSITION: A good earner and steady dividend payer since 1901, the concern has always enjoyed a strong financial position. Considerable plant expansion and modernization, undertaken in 1937-40 and costing some $3.3 millions, was largely financed from own resources; a small bank loan additionally arranged for this purpose was repaid in 1941. There is no funded debt and of the outstanding 328,108 shares $25 par common, a large part is held by the management and related interests. Maintenance of the quarterly dividend of seventy-five cents is considered assured.

OUTLOOK: Difficulties in obtaining raw materials and the fact that many of the concern's customers were going through the transition period of plant conversion caused a sizable decline of sales and earnings in 1942. Since the latter part of last year, however, the raw materials situation improved steadily and near-term prospects are considerably brighter with first quarter bookings about 40% above last years' period. First quarter net per common was $1.28 against $1.57 in 1942. Volume in 1943 may not entirely recover to 1941 levels because many of the company's specialty products carry a lower priority rating than heavier steel but strip shipments should hold up fairly well and some special war business is also likely. On the other hand, margins will probably narrow further as the larger portion of total business consists of less profitable items. On the whole, however, earnings for the duration should be good.

MARKET ACTION: The common in the past displayed about average volatility reflecting the company's dependence on the general business cycle. Of late, the stock has been lagging behind the market as a result of the aforementioned adverse near-term factors. Currently, the common is only 30% above its 1942 low while our Combined Index has advanced 80%.

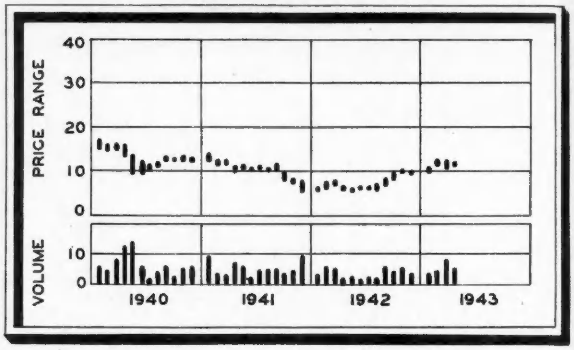
COMMENT: Recent price—50. Yielding about 7%, the stock has appeal for the long pull. Growing markets for the company's specialty output and demonstrated good cost control are factors of strength in the uncertain post-war period.

Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934	$9.408	$1.020	$3.11	$1.75	47½-27⅝
1935	13.867	1.760	5.37	2.25	74¾-51
1936	16.729	2.157	6.58	4.00	74¾-59
1937	19.837	1.898	5.78	4.00	85 -43¾
1938	11.029	0.368	1.12	1.25	52 -28
1939	17.400	1.908	5.82	2.00	56½-31½
1940	20.690	2.173	6.63	3.00	60 -34⅞
1941	34.753	2.994	9.13	5.00	51¾-43½
1942	27.097	1.782	5.43	3.50	48¾-39

Thumbnail Stock Appraisal

JARVIS (W. B.) CO.



BUSINESS: This company is the largest independent manufacturer of automobile hardware, made from die castings and brass stampings and sold to the automobile industry primarily as original equipment. Additionally, the concern makes refrigerator hardware which is sold to the Frigidaire Co. and General Electric, and household hardware and plumbing equipment for such large concerns as Crane Co. and American Radiator and Sanitary Co. The company's non-automotive activities have been steadily expanding in recent years. At present, it is concentrated on war work and has substantial sub-contracts for armor plate and parts, mostly for tanks and other combat vehicles. For this purpose, a new armor plant, built by the company but equipped by the Government, was recently completed.

FINANCIAL POSITION: As a result of favorable earnings and retention of a sizable part thereof, the financial position improved steadily since 1935 and present resources are ample for ordinary needs. Net income in the fiscal year ended 6/30/43 is expected to compare favorably with the results of the preceding period and is believed to justify a somewhat higher dividend than last year. There is no funded debt. Working capital amounts to $2.10 millions.

OUTLOOK: The company is now fully converted to war work and beginning to attain volume production. First quarter net was $0.33 per share compared with $0.16 last year. A high rate of operations and fairly good earnings are anticipated for the duration as parts production for military vehicles is expanding steadily now that additional capacity has been made available. Total volume should more than compensate for the lost automotive business but margins will be narrower. Normally, sales and earnings follow closely the trend of automobile production and post-war prospects will therefore be largely conditioned on the revival of the automotive industry. However, further growth of the company's non-automotive business should eventually lessen somewhat this dependence on the automotive market.

MARKET ACTION: With the company's business closely tied up with automobile production, the stock in the past moved about in line with the general business cycle, showing average volatility. More recently, fluctuations were wider, reflecting loss of normal business due to the war which only now is beginning to be adequately balanced by ordnance work. Today, the stock is some 150% above its abnormal 1942 low while our Index rose 80%.

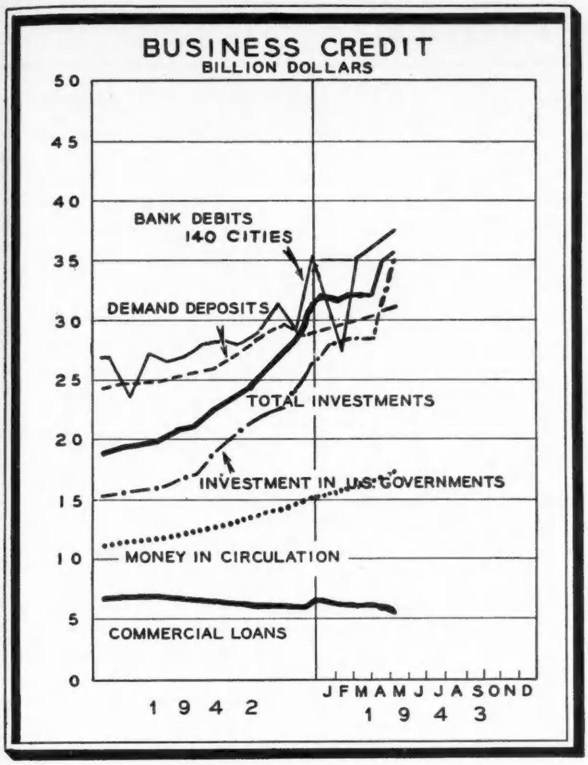
COMMENT: Recent price—14⅛. Yielding about 4%, the common has only long-term speculative appeal based on prospects of a vigorous post-war revival of the automobile industry and the consumers durable goods field where the company may be expected to find increasingly important markets for its products.

Long-Term Record

Year*	Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934	....	....	$1.22	....	....
1935	....	0.387	2.59	....	....
1936	3.739	0.485	3.24	2.37	26 -18¼
1937	4.536	0.728	4.86	2.87	29¾-13¼
1938	2.294	0.411	2.74	1.50	26½-10¾
1939	3.692	0.622	2.08	1.75	18 -10½
1940(a)	3.303	0.517	1.73	1.62	17 - 9
1941	6.777	0.950	3.17	1.12	14 - 5¼
1942	3.074	0.379	1.27	0.60(b)	10⅜- 5⅝

* Years ended June 30th, beginning 1941, and Dec. 31, prior thereto.
(a) Six mos. ended Dec. 31. (b) To Feb. 26, 1943.

Thumbnail Stock Appraisal



CONCLUSIONS

MONEY AND CREDIT—War expenditures since Pearl Harbor total \$81.1 billion, of which 17% has been financed by taxes.

TRADE—Department store sales in week ended May 8 were 12% above last year, against increases of 13% for four weeks and 11% for year to date.

INDUSTRY—Profits reported for first quarter by 260 leading industrial corporations were 7.1% above like period of 1942.

COMMODITIES—Farm prices mildly reactionary owing to heavier current and prospective supplies. Consumers, under rationing, cling to red meats—skimp on fats.

The Business Analyst

Somewhat larger than normal seasonal declines in check payments and lumber shipments were responsible for a fractional recession in per capita **business** activity during the past fortnight. Placing of Government **contracts for war supplies and facilities** thus far this year has been running nearly 40% behind last year's average rate. Aircraft contracting is running about even; but awards for new plants have slumped 88% and orders placed for new ships are off 60%. War contracts placed between mid-1940 and Mar. 1 of the current year totaled \$128.5 billion.

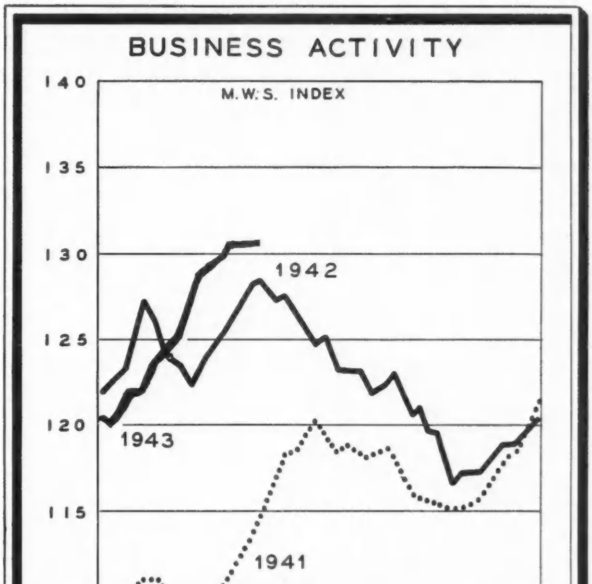
* * *

Suppression of black marketeering is going to be increasingly difficult under the new policy of using **subsidies** to roll back retail prices on cost-of-living items. Public spending power will be augmented by the amount of such subsidies while the amount spent in legitimate markets will diminish proportionately to the roll-back in prices. The outcome will be a two-way increase in the so-called **"inflationary gap."**

* * *

Most insidious will be the **political consequences of subsidies.** Subsidies will give plausible excuse for tightening Government control over the business of recipients, with its

(Please turn to following page)



Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
FEDERAL WAR SPENDING (tf) $b	Apr.	7.3	7.1	3.4	1.5
Cumulative from mid-1940	Apr.	95.0	87.7	26.7	13.9
FEDERAL GROSS DEBT, End of Month—$b	Apr.	129.8	115.5	65.0	55.1
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	May 12	30.1	29.5	25.2	24.3
Currency in Circulation	May 12	16.7	16.7	11.9	10.7
BANK DEBITS ($b) 101 Cities	May 12	11.6	14.7	8.6	10.4
New York City	May 12	5.3	6.7	3.2	4.3
INCOME PAYMENTS—$b (cd)	Mar.	11.21	10.44	8.80	8.11
Salaries & Wages (cd)	Mar.	7.91	7.75	6.00	5.56
Interest & Dividends (cd)	Mar.	0.91	0.44	0.89	0.55
Farm Marketing Income (ag)	Mar.	1.30	1.13	0.89	1.23
Includ'g Govt. Payments (ag)	Mar.	1.39	1.21	0.97	1.91
CIVILIAN EMPLOYMENT (cb) m	Mar.	51.0	50.9	50.9	50.2
Agricultural Employment	Mar.	9.0	8.8	8.9	9.0
Employees, Manufacturing	Mar.	16.0	15.8	13.9	13.6
Employees, Government	Mar.	6.0	6.0	4.8	4.5
UNEMPLOYMENT (cb) m	Mar.	1.0	1.4	3.6	3.9
FACTORY EMPLOYMENT (lb4)	Mar.	167	166	144	141
Durable Goods	Mar.	224	222	176	168
Non-Durable Goods	Mar.	122	123	119	120
FACTORY PAYROLLS (lb4)	Feb.	297	291	208	189
FACTORY HOURS & WAGES (lb)					
Weekly Hours	Feb.	44.5	44.2	42.2	38.1
Hourly Wages (cents)	Feb.	92.4	91.9	80.3	62.4
Weekly Wage ($)	Feb.	41.12	40.62	34.05	23.77
PRICES—Wholesale (lb2)	May 8	103.7	103.5	98.6	92.2
Retail (fi)	Apr.	113.2	113.2	113.4	107.5
COST OF LIVING (lb3)	Mar.	122.8	120.9	114.3	110.2
Food	Mar.	137.3	133.6	118.6	113.1
Clothing	Mar.	127.3	125.9	123.6	113.8
Rent	Mar.	108.0	108.0	108.9	107.8
RETAIL TRADE					
Retail Store Sales (cd) $b	Mar.	5.05	4.51	4.14	4.53
Durable Goods	Mar.	0.82	0.66	0.80	1.07
Non-Durable Goods	Mar.	4.23	3.89	3.67	3.47
Chain Store Sales (ca)	Apr.	175	180	164	151
Dept. Store Sales (rb) (1)	Mar.	135	167	124	116
Dept. Store Stocks (rb2)	Mar.	90	93	108	95
COMMERCIAL FAILURES (db)	Apr.	362	410	938	842
MANUFACTURERS'					
New Orders (cd2)—Total	Feb.	280	247	292	212
Durable Goods	Feb.	420	364	463	265
Non-Durable Goods	Feb.	191	172	182	178
Shipments (cd3)—Total	Feb.	256	226	199	183
Durable Goods	Feb.	337	298	232	220
Non-Durable Goods	Feb.	193	169	173	155
Inventories, end Month (cd3)	Feb.	176	178	163	153
Durable Goods	Feb.	210	211	181	170
Non-Durable Goods	Feb.	146	149	147	137

PRESENT POSITION AND OUTLOOK

(Continued from page 199)

inevitable crop of public scandals. From the presently planned modest beginning of $500 million, subsidy payments could grow like a cancer to billions annually, entailing a corresponding increase in the public debt. Meanwhile new pressure groups will spring up to demand that their living standards must rise despite the shrinking supply of goods.

* * *

In a limited number of instances **subsidies for high cost producers**, or to mitigate heavier shipping costs where normal transportation channels have been dislocated by the war, are doubtless preferable to a blanket price increase; but to subsidize entire industries is economically and politically dangerous.

* * *

With this issue the **statistical section of the Business Analyst** makes its debut in a revised format which we hope our readers will find even more useful than the former set-up. It will be noticed that data on employment, hours and wages have been added and a few items of less current interest discontinued. A new column at the right giving data for Nov., 1941, or for the week ended Dec. 6, 1941, according to whether statistics are presented on a monthly or a weekly basis, serves as a bench-mark from which to measure economic changes since the United States formally entered the war.

* * *

From the data here presented it appears, for example, that our total **defense-war cost,** which amounted to only $13.9 billion from mid-1940 up to the end of Nov., 1941, has since grown to $95 billion. The difference between these two sums—$81.1 billion—gives the figure for our Government's war expenditures since Pearl Harbor. Meanwhile the **federal gross debt** has risen to $129.8 billion by the end of April, from $55.1 billion at the end of Nov., 1941—an increase of $74.7 billion. Largely as the result of last month's second war loan, however, Treasury cash and deposits at the end of April were $7.6 billion larger than before Pearl Harbor, so that the net increase in indebtedness has been only $67.1 billion. This means that $14 billion, or 17%, of our war expenditures since Pearl Harbor have been met by taxes, and the remainder through bond sales.

* * *

The U. S. Census figures on **employment** afford a second example of the many bits of useful information conveyed by revised statistical data embodied in the Business Analyst. Our total labor force before Pearl Harbor (civilian employment plus unemployment plus our armed forces) amounted to 56.2 million. By March of the current year it had grown to 60.1 million

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	May 8	130.8	130.6	128.3	118.2
(M. W. S.)—I—np	May 8	157.4	157.1	152.0	139.5
INDUSTRIAL PRODUCTION (rb3)	Mar.	203	202	172	167
Durable Goods, Mfr.	Mar.	298	295	230	215
Non-Durable Goods, Mfr.	Mar.	148	150	139	141
STEEL INGOT PRODUCTION (st)m	Apr.	7.38	7.67	7.21	6.96
Cumulative from Jan. 1	Apr.	29.30	21.92	28.14	55.69
ELEC. POWER OUTPUT (K. W. H.)m	May 15	3,969	3,904	3,357	3,369
ENGINEERING CONSTRUCTION AWARDS (en) $m	May 13	91.0	72.2	229.9	93.5
Cumulative from Jan. 1	May 13	1,381	1,290	3,557	5,692
PETROLEUM—bbls. m					
Average Daily Production	May 15	3.98	4.02	3.48	4.11
Crude Runs to Stills, Daily	May 15	3.77	3.76	3.40	3.94
Total Gasoline Stocks	May 15	86.95	88.17	100.81	86.36
Fuel Oil Stocks	May 15	67.31	67.58	79.59	95.39
CARLOADINGS—t	May 8	817	789	839	833
Grain	May 8	46	47	56	43
Coal	May 8	142	134	167	150
Manufacturing & Miscellaneous	May 8	390	384	375	379
Mdse., L. C. L.	May 8	98	98	98	156
Ore	May 8	67	53	87	36
GENERAL					
Bituminous Coal Prod. (st)m	May 8	10.20	9.57	11.27	10.80
Lumber Production (bd. ft.)m	May 8	628	592	661	632
Paperboard, New Orders (st) t	May 15	142	133	95	132
Cigarette Production—b	Mar.	20.61	17.68	17.02	17.14
Portland Cement Shipments (bbls.) m	Mar.	10.11	8.66	12.56	13.72

PRESENT POSITION AND OUTLOOK

(estimating the armed forces at 8.1 million), or about 45% of the population of continental United States.

* * *

Meanwhile **unemployment** has dropped 2.9 million, and civilian employment other than factory and government has declined 3.1 million, or nearly 10%. It should be observed that unemployment is defined as "workers on sick leave and people not currently employed who are actively seeking employment." This explains why there is still unemployment, despite an acute labor shortage.

* * *

In instances where the indexes are based upon 1939 as 100, as in Factory Employment and Payrolls, and Manufacturers' New Orders, Shipments and Inventories, we have two important benchmarks from which to measure economic changes during the war—one pre-war and the other pre-Pearl Harbor. **Factory payrolls**, for example, rose 89% from the outbreak of war in Europe up to Pearl Harbor, and an additional 108% since Pearl Harbor.

* * *

Profits after taxes reported for the first quarter by 260 leading industrial corporations averaged 7.1% above the like period of 1942.

ag—Agriculture Dep't. b—Billions. ca—Chain Store Age, 1929-31—100. cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't., Jan., 1939—100. cd3—Commerce Dep't., 1939—100. db—Dun & Bradstreet's. en—Engineering News-Record. fi—Fairchild Index, end of Mo., Dec. 31, 1930—100. I—Seasonally Adjusted Index, 1923-5—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. m—Millions. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—End of Mo., Federal Reserve Board, seasonally adjusted index, 1923-5—100. rb3—Federal Reserve Board, seasonally adjusted index, 1935-9—100. st—Short tons. t—Thousands. tf—Treasury & R. F. C.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

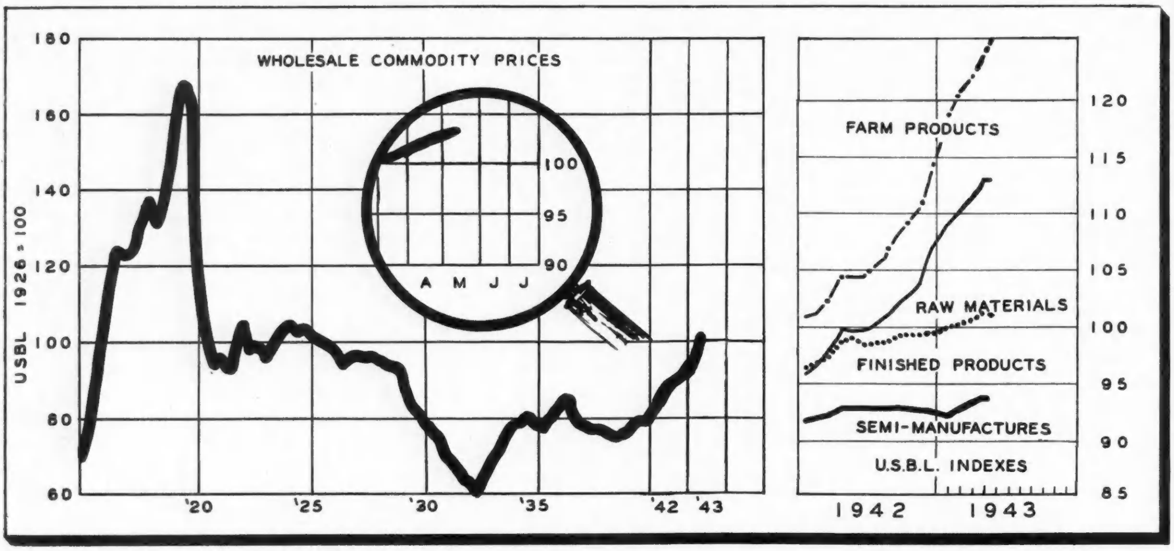
No. of Issues (1925 Close—100)	1943 Indexes High	Low	May 15	May 22
273 COMBINED AVERAGE	86.9	54.5	85.0	86.3
3 Agricultural Implements	134.3	105.2	132.7	133.5
9 Aircraft (1927 Cl.—100)	179.2	131.8	170.3	172.0
5 Air Lines (1934 Cl.—100)	489.3	363.1	482.8	485.8
5 Amusement	72.4	40.2	68.6	72.4F
12 Automobile Accessories	138.4	83.0	134.3	134.6
13 Automobiles	20.6	9.7	19.4	20.0
3 Baking (1926 Cl.—100)	14.5	8.5	13.2	14.5D
3 Business Machines	177.3	129.4	171.6	177.3D
2 Bus Lines (1926 Cl.—100)	96.6	54.9	85.5	96.6D
5 Chemicals	185.6	153.5	182.6	184.7
13 Construction	38.9	23.3	34.6	38.9D
5 Containers	225.3	177.1	225.1	225.3C
8 Copper & Brass	82.8	63.6	79.7	79.7
2 Dairy Products	38.0	29.7	36.5	38.0F
6 Department Stores	25.5	15.4	24.5	25.5E
5 Drugs & Toilet Articles	88.1	50.9	85.3	85.3
2 Finance Companies	217.0	152.6	205.0	217.0C
6 Food Brands	120.4	85.5	117.4	120.4Q
2 Food Stores	44.3	37.7	42.9	43.4
4 Furniture	54.3	35.0	53.3	53.9
3 Gold Mining	912.6	610.3	850.3	820.2
6 Investment Trusts	39.1	22.7	36.3	36.6

(Nov. 14, 1936, Cl.—100)	High	Low	May 15	May 22
100 HIGH PRICED STOCKS	64.20	52.87	63.10	64.14
100 LOW PRICED STOCKS	84.66	43.61	82.17	83.68
3 Liquor (1932 Cl.—100)	289.2	197.1	269.2	281.3
8 Machinery	108.0	82.6	105.2	107.3
2 Mail Order	76.0	61.8	74.6	76.0C
3 Meat Packing	55.1	34.9	51.7	51.3
10 Metals, non-Ferrous	154.0	106.8	150.4	150.0
3 Paper	12.5	9.0	12.0	12.1
21 Petroleum	130.5	86.9	125.7	127.7
18 Public Utilities	57.0	23.2	57.0C	55.2
3 Radio (1927 Cl.—100)	24.7	12.1	23.7	23.9
7 Railroad Equipment	54.2	32.1	50.9	54.2D
17 Railroads	18.6	9.8	17.8	18.2
2 Shipbuilding	106.1	83.4	100.5	99.4
3 Soft Drinks	285.0	197.8	276.3	279.5
12 Steel & Iron	74.2	57.6	72.4	73.9
2 Sugar	42.8	32.2	42.2	42.8F
2 Sulphur	191.9	180.2	191.0	191.9B
3 Telephone & Telegraph	109.9	67.0	108.0	109.0
3 Textiles	54.6	33.7	50.8	51.9
3 Tires & Rubber	25.4	16.5	24.5	25.2
4 Tobacco	60.6	52.2	59.9	59.8
2 Variety Stores	224.5	182.4	222.9	224.5C
20 Unclassified (1942 Cl.—100)	182.1	100.0	174.4	179.2

New HIGHS since: B—1941; C—1940; D—1939; E—1938; F—1937; Q—1929.

Trend of Commodities

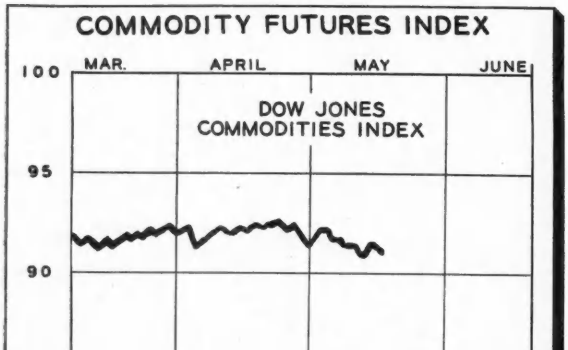
Crop prices have been generally reactionary since our last issue under the influence of heavier current and prospective imports of wheat from Canada and expectations of a larger cotton crop this season. Cotton rallied a bit, however, under approval by the Senate Agricultural Committee of a bill to place a floor of 23½c. under cotton and prohibiting the fixing of a ceiling at less than 25c. Heavy receipts of hogs have brought price recessions and reduced the losses under which packers have been operating under rigid price ceilings. Urging larger wheat production for next year to provide for greater output of alcohol and a prospective increase in export demand, the Government has removed all restrictions on wheat planting, with the single reservation that sub-fertile soil must not be brought back into use. We want no more dust bowls. Consumers are spending most of their red points for red meats and cutting drastically their purchases of lard, butter and margarine. In consequence, lard stocks are accumulating, despite the circumstance that our armed services and lease-lend are taking 70% of the lard output. O. P. A. is thinking of raising point prices on red meats. Food Administrator Davis uses the C. C. C. to support farm prices: wants the agency continued.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

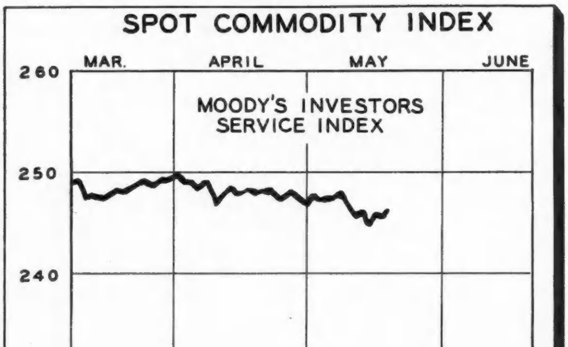
Spot Market Prices—August, 1929, equal 100

	Date May 19	2 Wk. Ago	Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	176.4	176.4	176.4	175.3	170.2	167.0	156.9
11 Import Commodities	168.2	167.6	167.8	165.8	162.5	162.0	157.5
17 Domestic Commodities	182.0	182.2	182.3	181.8	175.5	170.3	156.6
7 Domestic Agricultural	207.3	208.0	208.5	204.0	187.3	185.1	163.9
12 Foodstuffs	200.4	200.8	201.1	200.4	192.1	186.9	169.2
16 Raw Industrial	160.2	159.8	159.8	158.4	155.3	153.2	148.2



Average 1924-26 equal 100

	1943	1942	1941	1940	1939	1938	1937
High	92.16	88.88	84.60	64.07	64.67	54.95	82.44
Low	88.45	83.61	55.45	48.74	46.59	45.03	52.03



15 Commodities, December 31, 1931, equal 100

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	1943	1942	1941	1940	1939	1938	1937
High	249.8	239.9	219.9	171.8	172.3	152.9	228.1
Low	240.2	220.0	171.6	149.3	138.4	130.1	144.6

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. **Give all necessary facts, but be brief.**
2. **Confine your requests to *three listed securities.***
3. **No inquiry will be answered which does not enclose *stamped, self-addressed envelope.***
4. **If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.**

Special rates upon request for those requiring additional service.

Standard Power & Light Recapitalization

I have $2,000 Standard Power & Light 6% debentures due 1957. Would you advise holding these for the recapitalization plan or selling? What is the prospect of dividends on the stock to be received in exchange?—C. A. N., Boston, Mass.

Standard Power & Light 6% debentures due 1957 are rated B and sold as high as 80½ this year. This company's bonds have been assumed by the Standard Gas & Electric Company which has filed a voluntary plan for recapitalization, which includes provision for the retirement of all outstanding notes and debentures. Under the plan submitted by the company, holders of the debentures and notes, will receive for each $1,000 principal amount, $500 in cash, 23 shares of new class A common stock of the holding company, 5 shares of California-Oregon Power common and 2 shares of Mountain States Power common. In our opinion, the plan is inequitable from the standpoint of note and debenture holders and it is possible that some modification of the terms may be seen. Current market prices appear to be very closely in line with the current value of the proposed terms. However, the debentures are highly speculative in character and may be subjected to wide price fluctuations before the plan is finally approved. At current market price, retention of this issue for the time being appears warranted.

Thermoid Co.

Do you still rate Thermoid common as a promising low price speculation for price appreciation? I am holding 200 shares at 3⅝, purchased after reading your article on this stock in one of the September issues. Due to the drop in the automobile business, will business of company warrant the continuance of the dividends paid in the last couple of years?—M. H., Elmhurst, L. I., N. Y.

For the year ended December 31, 1942, Thermoid's net profit was 72 cents a share on common, compared with $1.20 a common share for 1941. Thermoid, is one of the leading fabricators of asbestos and rubber, normally supplies a large proportion of the brake lining and clutch facing requirements of the automobile industry, selling similar products extensively to manufacturers of various types of industrial equipment. Other automotive products include: fan belts, radiator hose, discs and packing. Lines for general industrial uses include such mechanical rubber goods as belting, hose and packing. A division formerly engaged in making carpets for autos and bathrooms, has now been converted to making duck for Army purposes. Research has been expanded to work on synthetic rubber, rubber substitutes and plastics. In normal times, customers included: Ford, Chevrolet, Chrysler and some smaller car companies. Distribution was through 600 jobbers, and a subsidiary acts as agent in Canada. Competition in all lines is keen, and profit margins are narrow. Installation of new labor-saving machinery is enabling company to realize wider profit ratios and improved operating efficiency should increase earning power.

Sales volume has been augmented by the armament program, which should offset drop in normal business. The company's sales in the first quarter of 1943 were up 10.8%. Auto parts for army trucks and military vehicles are in heavy demand, plus a large demand for duck to fill Army requirements. Finances of company are adequate. At present prices, we would retain this stock as a low price speculation, and for the attractive dividend, which we believe will be continued.

Masonite Company

I hold 20 shares of Masonite common, purchased in August, 1939, at 39. This stock made a comeback a short time ago and got up around 36 but I note it now is back down to 32. What is your recommendation on this issue? What is the cause of the decline?—H. E. D., Cadillac, Mich.

Masonite Company earned $2.58 per share on its common stock in 1942 as compared with $3.56 in the preceding year. It paid $1.25 in dividends in 1942 and has paid thus far in 1943, $1.00 per share. Dividends have been paid continuously, at varying rates, for the last eight years. Available earnings in the 1942-43 fiscal year will be taxed in full at the 1942 rate and earnings probably will be less than the amount reported for the last year.

The Government is using Masonite boards for various war purposes and in civilian production the boards are replacing steel in the manufacture of war style refrigerators, filing cabinets, office equipment, etc. The company's sales should continue to hold at a good level in the 1942-43 year, although prices have been fixed, greater economy with increased volume and extensive plant improvement should be helpful in maintaining operating income. The long term growth prospects for this company appear favorable and we see no reason to disturb this stock at the present time.

Superior Oil of California vs. Barnsdall Oil

As a purchase at present prices would you prefer Barnsdall or Superior Oil of California?—L. A. B., Platteville, Wis.

Superior Oil of California was incorporated in California in 1936. This company operated at a loss in 1938 and in 1940. It earned $1.93 in 1939, $4.12 in 1941, and for the fiscal year ending August 31, 1942, showed $10.67 per share. The company's total sales in 1942 amounted to $20,760,723 and net income was $4,512,798. The latter amount was after charging off $4,632,748 for intangible drilling expenses and $720,996 for abandonments.

The company's latest available balance sheet dated August 31, 1942, showed total current assets of $11,398,931 as compared with total current liabilities of $2,646,013, a ratio of better than 4 to 1. Cash, alone, amounted to $6,980,125 which was over two times total current liabilities. Net current assets amounted to $8,752,918 as compared with only $3,343,088 at the end of the preceding year. Cash at the end of the fiscal year had increased $4,500,000 above that shown at the end of 1941. It paid 50 cents in dividends in 1942 and in the first quarter of 1943, paid 50 cents per share. This stock was listed on the New York Stock Exchange on January 20, 1942 and prior thereto was traded in on the New York Curb Exchange and the Los Angeles Exchange. This stock has moved up from a low of $58\frac{3}{4}$ this year to a high of $75\frac{3}{4}$.

Barnsdall Oil Company earned $1.76 in 1942 as compared with $2.25 in 1941. It has paid dividends at various rates for the last eight years. The lowest amount this company earned in the years 1936 to 1939, inclusive, was 76 cents per share. It has paid 60 cents in each of the last three years. All bank loans were paid off at the end of 1942 and net current assets amounted to $3,752,756 as compared with $2,928,160 on December 31, 1941. Cash and U. S. Government securities were equal to the total amount of current liabilities and the ratio of current assets to current liabilities was 3 to 1.

In our opinion, both of these stocks rate above average and are worthy of inclusion in your portfolio.

Baldwin Locomotive Works

I recently purchased 100 shares of Baldwin Locomotive common stock. It does not seem to be very active in the face of good earning reports. Will you please advise holding or switching to something else? We understand this was reorganized some time ago. Please advise as to the financial status.—C. S. Sylva, N. C.

Baldwin Locomotive Works earned $4.22 per share of common in 1942 as compared with $3.10 in 1941. For the twelve months ending March 31, 1943, it showed $5.04 per share, which included earnings from Midvale Company.

Company's consolidated balance sheet as of December 31st showed improvement, current assets amounting to $55,960,940 as compared with total current liabilities of $43,656,113 and net current assets of $12,294,827. Cash on hand amounted to $6,017,889 as compared with $3,627,029 on December 31, 1941 and bank loans have been reduced from $8,000,000 to $5,000,000. The company's refunding mortgage 6's of 1950 were reduced from $6,467,900 to $4,210,400. The company set up a contingency reserve of $800,000.

Company's war business and profits are expected to be on a satisfactory basis although this year's earnings may not equal those shown in 1942. The company paid $1.00 in dividends in 1942. Operating costs are higher and profit margins are said to be somewhat lower after renegotiation of contracts, indicating some decline in net income. While the first reaction to peace might be bearish, the carriers will have to buy equipment after the war to put the roads in good condition again so post-war prospects are satisfactory. The common stock around $17\frac{1}{2}$ appears to have some merit as a speculation.

Follansbee Steel

I own 200 shares of Follansbee Steel which has risen more than 100% in value this year. Does this issue still have appeal for further retention?—S. G. R., Chicago, Ill.

Follansbee Steel Corporation for the year ending December 31, 1942, showed earnings of $1.77 per common share as compared with $1.46 in the preceding year. It is reasonable to suppose that this company will not be required to make any adjustments on account of business which the corporation did with the United States Government, either directly or indirectly in the year just ended.

In the second quarter of 1942, Follansbee Steel was completing its transition from peace-time to essential war-time production. This change resulted in the reduction in net profits as the manufacture of a substantial portion of a normally more profitable type of products was discontinued for the duration of the war. In view of the fact that the company's participation in essential war work is expanding, the matter of future dividend disbursements will have to be considered from time to time in the light of conditions which exist. Foreseeing the expanding volume of essential war business, with the consequent need of increased inventories of critical metals and materials and provision for plant expansion, necessitating a greater working capital and greater cash reserve, the dividend payments are expected to be small. The demand for the company's new copper-clad steel sheet and strips exceeds the present facilities and installations of addi-

tional capacity were in progress. It is our opinion that during the present emergency, this stock has appeal.

Northern States Power Dissolution

I own 20 shares Northern States Power Delaware 7% preferred. Would you advise holding same and accepting the Plan of Liquidation or selling at present prices? How do you think the dividends on the Minnesota company would compare to those of the Delaware company?—W. A. E., Brandon, Vt.

Northern States Power of Delaware earned $5.87 on its 7% prefered stock in 1942 as compared with $7.85 in the preceding year. It paid $6.12½ in 1942 and thus far in 1943 has paid $2.18¾, arrears now amounting to $5.25 per share. Consolidated earnings will probably be maintained around the 1942 level, with excess profits tax savings largely offsetting any greater cost increases. Partial payment of preferred dividends is expected to be continued.

A plan of dissolution has been filed with the SEC under which all outstanding securities of this company would be exchanged for common stock of the Northern States Power Company of Minnesota. This preferred stock is selling below its indicated liquidating value and we would continue to hold same for the time being.

Coal Versus Oil

(*Continued from page* 182)

rapidly becoming an important industrial raw material in its own right. A classical example of such a development was the conversion of coal tar to coal tar dyes. Today, coal is a storehouse of plastics and many other synthetics and chemicals, all young and growing fields with a yet unknown but presumably very considerable potential. In the manufacture of synthetic rubber, styrene, a product made largely of coal, is one of the main ingredients. Butadiene, the other, may be made of coal but at present is obtained much more cheaply from oil. It is inconceivable that our new synthetic rubber industry will be abandoned after the war. It may eventually develop into an important market for coal. Then there is the plastics industry, the future of which is closely linked to coal; 90% of certain phenolic resin plastics use coal as a basis. And finally, coal, by means of hydrogenation, may even be used for the manufacture of synthetic oil and gasoline, should this ever become necessary. All these factors, or just some of them, may suffice to arrest if not definitely reverse the past downtrend of the coal industry.

On the other side of the picture, there is always the possibility that as a result of active exploration, considerable new oil reserves are found which will obviate the need of conservation. Also, coal being a highly regulated and highly unionized industry, it may be difficult to maintain a price differential over oil sufficiently attractive to retain the markets gained during the war period. Then there is the possibility of oil imports to bolster domestic supplies, and a ban on exports to the same end. Increased use of diesel or electric locomotives by the railroads may reduce their dependence on coal.

On the side of oil, there is another factor, previously hinted, which must not be overlooked. That is increasing efficiency in the use of crude oil resulting from improvements of refining technique. In this field, tremendous strides have been made not only prior to, but more especially during this war—as yet largely unpublicized—which will stand the industry in good stead in its efforts at conservation. As an example, it is estimated that development of the cracking process saved over eleven billion barrels crude during the years 1920 to 1938, a saving of almost 42%. Today, cracking together with other advanced refining processes, is saving crude oil at an even greater rate, and further substantial progress along these lines is in the offing. The development of synthetic processes for making gasoline and especially aviation fuel from refinery gases and natural gas is important in this connection in view of the magnitude of our natural gas reserves which are estimated to be good for at least forty years. It is significant that every barrel of gasoline produced from natural gas is equivalent to a saving of about two barrels of crude oil. Natural gas, of course, may also threaten coal, especially if, after the war, the new pipe lines now building or recently built should be used to carry natural gas to the East; this however does not appear very likely today.

The very multitude of factors entering the post-war outlook accentuates the impossibility of definite conclusions beyond the already stated opinion that prospects do favor a revival of the coal industry; the extent of this revival is difficult to appraise. To infer, on the other hand, that the oil industry may be forced to return to an outright scarcity economy would be premature, to say the least; probably it would be quite incorrect.

However, there is little doubt that conservation will be the watchword of the future; the industry can no longer afford the often wasteful methods of exploitation which characterized earlier days. It must endeavor to get the most of every barrel of crude, and the most of every oil well if it hopes to maintain a reserve position sufficient to guarantee stability of operations. This, I believe, the petroleum industry is well able to achieve, and in its own interest will strive hard to achieve. It would mean, among other things, a definite end to the ruinous gasoline price wars which in pre-war days were the bane of refiners and producers alike. From the earnings standpoint, this should greatly redound to their benefit.

Meanwhile, most coal companies already profited substantially from their war-time windfall, as the accompanying statistical table will show. In the past, steadily diminishing gross revenues left the coal industry with a relatively high overhead which could not be met from the remaining business. The result was increasing debt and eventually bankruptcy and receivership in some cases; constant financial de-

terioration and the passing of dividends in almost all instances. However, since 1941, earnings were steadily on the upgrade, permitting even increased dividends by some; others which for the last decade disbursed nothing to their stockholders, are now able to clear up fairly rapidly debts and arrears to resume dividends.

As a whole, the coal industry is fairly well prepared to make the most of future prospects. To regain some of the lost business, cost and quality correctives were liberally applied in recent years; large investments were made by some in mechanical equipment to reduce unit costs and improve quality. In the bituminous field especially, cost reductions were achieved by installation of improved loading and coal cleaning devices. This should stand them in good stead now that volume is expanding and prospects exist for the maintenance of broader markets in the future. From the investment standpoint, coal shares, notably those of anthracite producers, are presently still regarded to carry more than average risk in view of future uncertainties; as the post-war outlook crystallizes, granted the trend, as expected, will be favorable, this should be quickly reflected in their market price. For the moment, anthracite shares are rated as strictly short-term speculative situations. The shares of many bituminous producers are still reasonably priced in relation to war-time prospects; some with demonstrated ability to operate profitably under normal conditions are attractive, considering post-war potentialities.

As to petroleum shares, they have long been favorites of investors; more recently their inflation hedge characteristics lent them particular appeal. The majority, since the bull market began, have kept pace with the rising market. Their relatively small yield, in many cases, attests to their popularity and the constructive market attitude taken by investors. Regardless of the outcome of the post-war contest between coal and oil, petroleum equities, for reasons stated before, should continue to offer attractive investment opportunities.

The Building Industry

(*Continued from page* 185)

if only a part of the optimistic post-war prospects are realized, fair continuity of present earning power makes the stocks attractive investments. In the best estimate of post-war needs, certain companies may even be spectacularly attractive. But in few industries are companies more diverse as to products and in few does individual examination become as important for investor guidance.

Otis Elevator, to take one instance, is not so favored by two story housing units as it is by high apartment houses and office buildings. Flintkote depends largely on programs of modernization and is not so dependent on gross new construction figures. Crane Company, as a plumbing company, is affected by new building but, as a valve producer, depends more on industrial recovery. Johns-Manville is unusually dependent on diffused small housebuilding and stands the best chance of run-up in earning power as mass housing schemes get under way. American Radiator differs from most other companies in its group because of a slump in earning power during the war, even its net sales not having risen spectacularly. It is already more geared for peace than many other companies, and it has a tremendous write-off for foreign losses that, when partly restored, can add considerably to its earning power. International recovery plays a large part in evaluating its prospects. Here a reduction of employees in war time, from 20,000 to 15,000, is an unusual phenomenon and shows that for American Radiator war is a depressant. U. S. Gypsum faces an unfavorable year and has already shown a poorer earning power under government business than its steady level, centering about $5.50 per share, for years before the war. It is probably less attractive than other stocks in its group, relative to demonstrated peace-time earning power, and those anxious to participate in this section of building material prosperity might do better to take the smaller company in the field, National Gypsum, for percentage advance from prevailing levels. Here the ratio of recent price (about 10) to earning power is 6 to 1, as against U. S. Gypsum's 15 to 1 ratio.

In the case of Minneapolis Honeywell we have a company peculiarly fitted to benefit by the drive for modernization and for features in housing that were scarcely met with before 1940 as a large factor in construction costs. Heating control systems are almost sure to become standard practice and certainly in public buildings, such as schools, hospitals and institutions, as well as office buildings. Many of the new and diverse products of this company must be considered by any new urbanization planning commissions. This company seems the most promising of all in possibilities for exceeding its average pre-war sales by moving into an altogether different class: that is, an important all-round factor in the industry. Its reserve provisions are liberal and indicate an earning power exceeding that shown by ultra-conservative accounting policy. In terms of research it ranks highest in the group, in proportion to resources.

Celotex Corporation has generalized its activities, so that it not merely depends on its oldline products, but shows a diversification so great that it should participate almost evenly in all sections of building materials required. For example, products introduced since 1936 as new lines, were about 10% of sales in 1937, and rose under peace orders to 37% in 1941. This disregards further diversification under war conditions. This combination of enterprise and increasing balance of products is a sound basis for participation in post-war building material business in excess of its former share.

But however great the variety of companies, the salient fact remains that, apart from some immediate adjustments due to reduced volume of war business, the capital goods producers most indicted to increase earnings in post-war development are the building material companies.

How'd you like to carry home

500 POUNDS OF CANDLES?

SNUFF OUT THE AXIS BY BUYING BONDS!

YOU: *What on earth for? What would I do with all those candles?*

Why, they'd light your home for a month.

YOU: *Light my home? But I've got electricity!*

Yes, but if you didn't have it, you'd need about a quarter-ton of candles to do the same job.

YOU: *A quarter-ton? That's a lot of candles!*

It's a lot of money, too. It would cost you about $200.

YOU: *Wow! I couldn't afford that. My monthly electric bill now is only three dollars or so.*

Well, that's just about average. But remember that only about 85c of it goes for light. The rest runs your radio and refrigerator –

YOU: *Say, electricity's pretty cheap when you come to think of it.*

Yes sir! Cheaper than it's ever been. You're getting about twice as much electricity for your money today as you got fifteen years ago.

YOU: *How can that be? My bill hasn't changed.*

But think of the electric appliances you've added. Fifteen years ago, did you have an electric refrigerator?

YOU: *N-no.*

Radio? Electric mixer? Electric clock?

YOU: *No. . . . Say, how come I do get more electricity now?*

That's easy. Experience – efficiency – sound business methods –

YOU: *I don't get it.*

It's simple. The electric companies under business management know their job. That job is to give you the best possible service at the lowest possible price. And they're doing it! Today–when most other prices have been going up – ELECTRICITY IS STILL CHEAP!

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ELECTRIC COMPANIES* UNDER AMERICAN *BUSINESS* MANAGEMENT

**Names on request from this magazine.* *Not listed for lack of space.*

The Dynamic Future of Common Stock Investment

(*Continued from page* 172)

higher consumer standards.

The object of this series is to guide the investor to long-term profits. One caution is necessary —timing. Those who buy long-term prospects too soon, require a character that is above the human average to sustain them through intermediate fluctuations. If Germany should be defeated in 1943, the post-war earning power of corporations would move nearer, true; but the temporary confusion of adjustment would also unsettle markets that much sooner. If peace should be followed by a tense period of social disarrangements, or even revolutions, in Europe, few can think that markets would take such developments in their stride. They not improbably will suffer transitional adjustments at some point before expansionist post-war forces take hold. Therefore, although fortune building is the true policy for investors, timing of purchases still remains the intelligent investor's aid in rightly beginning what will be a splendid career.

A study of corporate profit potentials may begin by accepting the Department of Commerce estimate that gross production, expressed in 1942 dollars, will rise from 97 to 165 billions by 1946, on the assumption of fairly full employment. To this domestic production estimate must be added exports. At 1942 prices, and merely continuing per-war trends, this total would be brought to 175 billions. One must eliminate war earning power, which is about 4.2% of total sales and return to the basis shown in the five years 1936-40, which was about 9.2% of sales. From this optimistic difference must be deducted, however, an increase in post-war taxation as against the pre-1941 period, owing to high debt and pension service and larger permanent governmental activities. We should consider that 8% of total sales would represent corporate net. Hence corporate net would rise from 9.2% of the equivalent of 97 billions (this figure includes non-corporate earnings but the proportion is the same) to 8% of 175 billions, or, proportionately from to 9 to 14.

If the proportionate earnings, then, advance from 9 to 14 (this assumes that costs will rise in the same proportion as sales, and excludes economies learned during mass production in the war) the effect on the common stocks, where there is a large funded debt or preferred stock issues outstanding, would, of course, be considerably larger. Reconversion costs are not a factor, for by the 1946 revival, they would have been provided for out of reserves, and taxes will be largely taken care of under the relief provisions of Section 722 of the Revenue Act, or through tax credits.

The net addition to corporate revenue would thus be about 56% greater than pre-war. On the prevailing capitalization of industrial corporations, there are many cases in which this mere secular trend would be 100% above pre-war earnings for large groups of common stocks. Treasury estimates state that even now 81% of all persons gainfully employed are active in industries or agriculture which is similar to civilian production: that is, army needs do not require a different character of labor or different type of investment. Here the quantity of government investment permits of great earnings use in peace, without conversion costs. A company producing uniforms does not have to undergo basic alteration to produce similar civilian clothing, for example. It is often forgotten that only 19% of American industry has been seriously varied as to capital and labor form, by the war. If one adds earning power on this new capital, and deducts from that figure, the repayment to the government, one can calculate, responsibly, that for such com-

Preferred Stocks and Bonds Attractive for Income

PREFERRED STOCKS	1936-1939 Ave. Earn. Per Sh.	Earned 1940	Earned 1941	Earned 1942	Price Range 1936-1939 High	Price Range 1936-1939 Low	Price Range 1940 to 1943 (to Date) High	Price Range 1940 to 1943 (to Date) Low	Recent Price	Call Price	Income Yield %
Remington Rand $4.50	$17.79	$12.46	$23.05	$17.98(9 mo.)	94¼	49½	79	37¾	76	100	5.92
General Tire & Rubber $6.00	51.00	25.09	52.71	62.97	107	72	108	96	106	105	5.66
Pure Oil Co. $5.00	14.00	12.02	21.07	18.97	88½	63¾	100½	73⅜	100	105	5.00
Crane Co. $5.00	28.00	26.63	19.34	25.02	117¼	85	105	75	104	105	4.80
General Cigar $7.00	27.00	27.39	33.35	29.36	152	106	143½	102	140	N.C.	5.00
Interstate Dept. Stores $7.00	16.55	25.72	55.51	58.76(1-31-'43)	107½	63	105	74½	102	110	6.86
Dixie Cup $2.50	4.80	4.59	5.23	5.19	41¾	27	40½	30½	40	45	6.25
Spicer Mfg. Co. $3.00	16.50	30.24	43.36	48.29	53¾	29	60	45¼	56	57.50	5.35
Continental Baking $8.00	10.16	8.73	11.45	14.53	109¾	65	109¾	70	106	110	7.54
Celotex Corp. $5.00	28.00	25.72	60.16	37.75	86	46	91⅞	48	91	100	5.49

BONDS	Fixed Charges—Times Earned 1936-1939 Average	1940	1941	1942	Price Range 1936-1939 High	Price Range 1936-1939 Low	Price Range 1940 to 1943 (to Date) High	Price Range 1940 to 1943 (to Date) Low	Recent Price	Call Price	Current Yield %
Cities Service Pr. & Lt. 5½'s 1952	1.29	1.47	1.33	1.52	93¾	36½	99½	76¼	93	102	5.91
Allied Stores 4½'s 1951	3.99	5.13‡	6.64	8.78	100¾	79	105½	89	103½	102½	4.35
American I. G. Chemical 5½'s 1949	4.25*	4.33	4.84	4.15	117½	98	105½	100⅛	104⅝	100	5.25
Celotex Corp. 4½'s 1947	4.85	4.07	9.41	6.52	97½	59	102¾	73¾	101¾	101	4.42
General Steel Castings 1st 5½'s 1949	0.63	2.18	4.54	4.36	98⅞	37½	100	55¾	99½	102½	5.53
United Drug 5's 1953	1.59	1.65	2.68	3.63	103⅝	60	103½	75⅛	102	103	4.91
Western Union 5's 1951	1.33	1.89	2.86	3.38	107⅞	48⅝	94½	53⅜	93	105	5.37
American Water Works 6's 1975	1.20	1.29	1.28	1.27	111½	84	111	96	103	110	5.82
Walworth 1st 4's 1955	2.22	4.00	6.92	11.3	90	55⅝	96	56	93	100	4.30
Warner Bros. Pictures 6's 1948	1.70	1.74	2.72	3.92	92	79½	104	78	102	100½	5.88

* For 1939 only. Merged in 1939 with General Anilene & Film Corp. ‡ Fiscal year ends Jan. 31st and figures are for 1941-42-43.

panies a post-war ratio of 10% net to gross sales would be habitual.

It is notable that the Department of Commerce, on a domestic basis, foresees the sale of general machine tools as nearly double that prevailing before the war, despite the fantastic production of 1941-3. If that can be sustained, then there are few industries that will not show increases above pre-war, so that a general average gain will at least be reflected to some extent even in laggard industries.

The above figure of 10% earnings is nearly double pre-war profit, but makes no allowances for cheapened production, due to new techniques, to new raw materials, to plastics or electronics, better educated labor, or any other imponderable or suggestive ingredients of the new industry. In the two accompanying tables to this article, there have been selected such industries and companies as will benefit by these new factors, in excess of the tendencies already evident in 1940. In a brief survey much that is pertinent has to be omitted, such as net assets gains going on steadily in wartime, and other constructive aspects. It is enough that the American investor directs his attention steadily to future fortune; it is not a mere hope; intelligently followed, it is a certainty.

Watch the World Go By—

(Continued from page 179)

basic resemblance between the reason for this in the case of Britain, on the one hand, and Canada and the United States on the other. Britain is praised for her sound finance, but her budget excludes the largest income of all: that from lease-lend. Hence she has a constant flow of consumption goods, against which she does not issue currency or increase bank deposits unduly. These receipts from the United States and Canada, since they are not paid for at all in present goods, on balance, constitute, (in an economic sense, there is no moral criticism intended) an income by way of gift, and this makes a comparison of British price policy and American price policy of less significance. The threefold increase in Bank of England note circulation, however impressive, cannot affect a price level, where so large a part of the consumer supply is subject to lease-lend arrangements.

* * *

If, in the United States, we make every effort to add to our consumer goods production, and to gear present production and finance to a quick resumption of civilian goods production immediately after the war, we shall suffer little from the post-war inflation. That it will occur is a certainty: that it will retreat as production catches up with it, is also pretty much assured. Whatever the varied experience of the warring and neutral countries can teach us, one lesson is paramount. Not war, but a bad war policy which hampers peace recovery, is the true author of inflation.

THE MEN BEHIND THE CORPORATIONS

Bendix Aviation's President Breech

Ernest R. Breech epitomizes in person and action the ultra-modern school of top corporation executives — youngish, clean-cut, dynamic. Still well on the sunny

side of fifty, material success is a rather old story to this man Breech. His commercial career was launched via studies in accounting and business administration at the Walton School of Commerce and the University of Illinois. At 26, he was Comptroller of the Yellow Cab Manufacturing Co., which later became the Yellow Truck & Coach Manufacturing Co. Scarcely turned 30, he was General Assistant Treasurer of the General Motors Corp. At 36, he was Chairman and President of North American Aviation, Inc., a G. M. subsidiary. At 45, he became "top man" in Bendix Aviation—early in 1942—in which war-swollen enterprise G. M. has a large stock interest.

An expert knowledge of the complexities of corporate finance stands Mr. Breech in good stead at Bendix — where sales have mushroomed to twenty times the pre-war average, where soaring current assets run just a jump or two ahead of soaring current liabilities, where a $150,000,000 revolving bank credit keeps the wheels greased, and where contract renegotiation with the Government, running into tens of millions of dollars, is chronic "unfinished business."

Mr. Breech is not primarily a production man, himself. Neither are a great many other chief officers of manufacturing companies, who got up there via financial administration or the law or both. The grasp required is broader than production or selling or buying. These men, and Breech is one of the best, are co-ordinators—managers, in the highest meaning of the word. The job is something like that of combined coach, captain and quarterback of the team.

Although he is devoting the bulk of his attention now to the job of getting out war materials, Mr. Breech is rapidly assuming the stature of a leader in post-war aviation planning. He envisions substantial markets for both private airplanes and for air freight carriers, but these predictions he keeps out of the realm of fancy.

"I do not predict that the private airplane industry will ever equal in volume of units that of the automobile industry," he says, "but I do believe that we will in a very few years see an annual market for private airplanes that will be an important factor in our economy."

A native of Lebanon, Mo., Mr. Breech obtained his early education in Lebanon public and high schools. He attended Drury College at Springfield, Mo. He began his business career in 1917 as accountant and auditor for Fairbanks, Morse & Co. While with North American Aviation, Mr. Breech was for some time a director of Transcontinental & Western Air, Inc., and also President of T.W.A., Inc., Eastern Air Lines and Western Air Express, all these companies being subsidiaries at that time of North American Aviation.

Mr. Breech is a Trustee of Drury College in Lebanon, Mo., a member of the Illinois Society of Certified Public Accountants, the Detroit Airport Committee; and the Board of Governors of Bloomfield Hills Country Club and the Recess Club in Detroit. He is married and has two sons, Lt. Ernest Robert Breech, Jr., United States Army Air Forces; and William Howard Breech, now in Civilian Pilot Training.

The Wisest Investment Policy Now

(*Continued from page* 169)

not be blocked. Many, too, who have no reason for this fear, still think in European terms. A long war means a capital levy to them. They have no idea of American constitutional guarantees, or of the Bill of Rights. They have seen only despotism and they take no chances. They are safe investors: nothing could get them to sell.

A fourth group of buyers are the large number of shrewd investors, very rich and reasonable, chiefly the French and British, who are frankly amazed that stocks like Chesapeake and Ohio can sell to yield nearly 8%, Consolidated Edison 8% and U. S. Steel be poorly considered. When they compare the yields on these stocks with what they were accustomed to abroad, they think Americans underrate their own country, and they buy on every recession, in volume, and for cash. This is the mainstay of high class buying in the Southern California area, in the Fifty Seventh Street district in New York and in Washington D. C., in the diplomatic set.

The most interesting aspect of the new buyer, though, is this: In proportion as the buying is serious and intelligent, in that proportion are the buyers diversified. That is, whereas certain cheap stocks attract only one specific type of buyer, income stocks attract men from all walks of life. Those who realize how much more advanced investment analysis is than in the 1920's especially in high-class brokerage firms, will understand this following. Brokers discourage business in poor quality shares, prefering investor goodwill to a temporary windfall in commissions. Twenty years ago, commissions were the end-all and be-all of brokers, as distinguished from investment bankers.

A great proportion of the best buying is coming from accountants, and other graduates of

commerce schools or extension courses in finance. These largely balance the reduced buying by fire insurance companies, owing to their smaller premium income. Investment Trust buying has been consistent since last October, and is a sizable market backlog. There has been little switching by them; the purchases are nearly net.

One of the difficulties in new buying, has been that directors of companies, under SEC regulations, are no longer active on the buying side in their own companies. But "management," that is their trained and technical employes, are buyers and, among smaller companies, form a substantial demand. As this is done without the veiled pressure that once prevailed, it is a sturdier market support.

Who is selling? First, of course, wearied old holders who count what stocks cost them and not what they may go to. These people have lived through a five year dull market. They got rid of some holdings in the Fall of 1939 and Spring of 1940. Their orderly liquidation was interfered with by the fall of France and so they are mechanically taking the first opportunity to finish their original plan.

The "cats and dogs" are being led out by men who remember the mass buying of the 1920's who cannot understand this cash market, who are sure that it will fall on evil days and who regard the percentage-wise advance of the cheaper stocks as heaven-sent, for they had written off "death-sentence" utilities and little industrials, and their present popularity will not shake them. They are nearly all professionals, though some insurance companies and investment trusts show reduction in such items.

The market still receives large selling orders for estate taxation, but this is neither new nor larger in volume than before. Tax losses are (especially when related to longheld stocks), welcome to the upper bracket group, but this type of orderly liquidation, which reached its climax last summer, has retreated as a more optimistic view is taken of taxation pros-

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pects. Here selling pressure, so constant since 1937, has, at last, eased considerably.

One type of liquidation goes on gently but is always ready to take advantage of good prices. That is the selling by investment bankers and financial sponsors, who once held "fiscal leadership." When private bankers had a monopoly of new issues, they took, as part of their compensation, large blocks of stock which they would not part with on account of its control feature. They also used these holdings for less worthy objects, such as having a large supply with which to swing the stock for market manipulations. Now that the SEC rigorously supervises "fiscal leadership" and since public offering of common stock has almost ceased, these blocks of stock are often redundant and the bankers reduce their holdings accordingly. When interlocking directorates have no meaning, and when subcontracts cannot be given to "feeder" companies, in short, when the abuses of control are over with, the large interests have no other option than to view stocks exactly as the small investor does, that is, on the basis of adaptation to their income needs. These shares are bought in many cases by men interested in management of these very companies. Many of such transfers are arranged privately, but are a long-term factor in market strength.

Each group of buyers has the reasoning that fits its type of purchase. The speculators talk "inflation," and the Magazine of Wall Street low-price share index, up from 43 to 83, already discounts a pretty cheap dollar. The cooler investor expects a zigzag period of growth, with some interruptions and throw-backs, as in a temporary post-armistice market; but he is convinced of long-term recovery, and his steady confidence is shown by the unspectacular (nearly all cash) buying of 100 high priced stocks, up from 52 to 64, or more than 20% in four months. They attach no undue importance to inflation, and a great deal more to the prospective return to sound fiscal policy.

The short-seller concentrates on the best stocks, because their less volatile nature, gives him the minimum of risks. He expects them to "bump" sympathetically when the worst stocks "fall out of bed." But one thing is certain. The anatomy of the present market is not to be understood by precedents. It is new in personnel and in objectives. And its strongest point is the unprecedential proportion of outright ownership. This ownership cannot be "shaken out" in the old sense; although it can, of course, change its mind with events and market action.

The Crisis on the Home Front

(*Continued from page* 175)

backwardness, in ratio to the broad market average, indicates a "bloodless" consensus (more reliable than the statements of special pleaders) that the skies in the food trade are cloudy.

By themselves, of course, subsidies to increase production and restrain prices to consumers are no anti-inflation panacea. As part of a comprehensive program—in which fiscal devices should be used more heroically than has yet been the case in this country — they have a valid and necessary place, as has been amply demonstrated by the practical experience of England and Canada. They have objectionable features and might invite political abuse, as many critics suggest — but we are at war. When the house is on fire one does not question the ideology of the firemen nor the source of the water. In war we do many things alien to orthodox peace-time economics. For instance—speaking of subsidies—the Government has been using them for some time to stimulate copper production, to induce larger imports of strategically important materials and to recompense oil companies for the abnormal cost of getting gasoline to the East via rail.

If we can judge by British and Canadian experience, the cost of an adequate program of food subsidies in this country probably would be around $2,000,000,000 a year. True, that would be $2 billion more of annual buying power unless the funds were raised by taxation or absorption of existing savings, whereas $2 billions in food price inflation would *mop up* that much buying power—but the answer is that the subsidy is subject to control and that, without subsidy, food costs probably would rise by considerably more than $2 billion a year.

Last year the public spent about $22 billion for food, against $13 billion in 1939. About half of the increase of $9 billion did not represent more food eaten but the cost of price inflation. The public will not eat more food in the next twelve months than in the past twelve, because there simply will not be more available. There may be materially less—dangerously less if weather conditions average badly. (Spring weather has been very adverse in many important areas). A food price rise no greater than that of the past twelve months would add over $3 billion to the public's cost of food over the next year.

Our battle against the potentially disasterous price-wage inflation spiral must be fought out on various fronts, all of which are inter-related. Those now giving greatest aid and comfort to this particular enemy are John L. Lewis and the Congress farm bloc. We don't have to beat the coal miners. (Theirs is a hard and hazardous occupation at pay considerably under present industrial standards.) But we do have to beat Lewis personally on the main issue of patriotic self-discipline for labor, economic stabilization and the prestige of the War Labor Board. When that is done—and early passage of the pending Connally bill would help—we will have a better chance of holding the line against the farm bloc.

Investment Audit of Paramount Pictures

(*Continued from page* 191)

dividend is augmented to $2.40, it would yield 6% at 30, and as this is possible, the stock is not undervalued on an income calculation. The future holds the possibilities of restitution of French and Belgian assets, and this sum, while small, would add rather to earning power than to assets per share.

Neither priorities, military absence of stars, material and skilled labor shortages, have as yet affected operations importantly.

For the long pull, Paramount, as primarily an exhibiting corporation, is a function of the mass income of the people. If the postwar adjustment shows great declines in payrolls, and if unemployment increases, and if the popularity of the automobile leads to a passion for weekends in the country, then the slump in revenue may well be serious. The more problematical gains from television need not be considered here, as television may cut both ways, and, at the very least, we are as yet badly informed as to its costs, distribution, possible net receipts. Within the terms of the entertainment industry as we know it, it is true that the prosperity of Paramount, even allowing for its improved management and artistry, is basically dependent on the gain in gross receipts.

Such gross receipts have been exploited to the full by its present management, whereas years ago similar income produced no comparable profits. But on the 100 million receipts basis, the best indicated earning power would be about $2.25 per share and average earnings would be less. Hence, Paramount is today, on prevailing conditions, somewhat underpriced and can appreciate, but the investor cannot dispense with watchfulness on its postwar position.

As I See It!

(*Continued from page* 165)

off from the world, what mischief Japan could stir up in India where the extent of British control is still subject to conjecture!

We have heard much talk of the impassable terrain between Burma and India as the reason for the setback of the British armies there, although the Empire forces numbering two millions were opposed by only sixty thousand Japanese. It would be hard to make the world believe that the Japanese success in Burma was due alone to the overwhelming physical difficulties the British encountered. The question arises as to why the British have not relied on these impregnable mountain passes to hold the Japanese while concentrating their main efforts by sea against Rangoon, the Burmese capital, which strategy is held to be soundest under existing conditions. In any case, if that was not feasible because it was considered more desirable to concentrate air and naval power elsewhere, then why was not the direct route from China to Burma used? It did not require the moving of large forces over vast distances, for here the great armies of General Chiang Kai-Shek needed only to be supplemented by allied experts and airmen. And still, the Chinese were not adequately equipped to handle the situation.

One of the excuses given against using the Chinese is that they are not sufficiently schooled in modern machinery nor in handling it, and we must, therefore, wait until we can send mechanically minded Americans to do the job. This reasoning fails to take account of the heavy loss in American lives that would come as a result of a Japan lording it over China, and firmly established on the Asiatic continent. Certainly we can more easily afford the misuse and destruction of equipment and planes, as compared with the loss of American lives that would be inevitable if China were put out of the war.

As matters stand, the loss of a fighting China now would be equal to a major defeat in the field for the United States—not only for the present, but for the future—and would postpone the peace of the world for years.

As a result of the reshaping of world power, China has become our natural ally and we should do everything we can to preserve her status as a free entity. Neither Russia nor Britain are interested in her from the same viewpoint that we are. Russian infiltration into China has gone on for many years so that today, as Wendell Willkie pointed out in his very fine book, Russia controls Northern China politically and economically.

We know that Stalin is bent on retaining this hold. Britain, on the other hand, still has not written off her enormous Chinese investments, nor for that matter has she written off any of her losses in the Far East.

The further strengthening of the alliance between Russia and Britain recently, calls for a closer bond between China and the United States. And because of the mutual trust that exists between us much can be accomplished that will not only be of advantage to both countries, but will serve the world well in producing a much needed social stability and in creating economic progress. But to accomplish this, China must be kept in the war so that she may be given a chance to live and to survive as a free nation.

This can be accomplished without any weakening of the plans against Hitler.

Our current position in relation to our allies in the European theater at the moment is as follows: We are heavily represented in the fortress, that is, the British Isles—and combined with the French and English occupy a formidable position in Africa. Strong Russian armies are holding the eastern front and an immense tide of American lease-lend material is flowing into Russia. All in all, we are prepared with overwhelming superiority of men, planes, and material to knock Hitler out.

And now the time has come for us to turn our efforts against Japan who has been strengthening her position while Hitler has been deteriorating. Our task in Europe has become a secondary one—while for Britain and Russia the defeat of Hitler is still the primary consideration.

In the Pacific it is the other way around. Here, Russia is at peace with Japan and Britain considers Nippon only of secondary importance—while our security from invasion hangs in the balance so long as Japan remains supreme in the Far East.

It would be most natural for us to concentrate on beating Japan now, for the situation has changed since we entered the war in defense of freedom on the side of Britain, and acknowledged the British Isles as our first line of defense. We have been unstinting in our support and when our arms and machines were not enough we followed it up with our manpower.

The victory of Africa has greatly eased the situation for both Britain and Russia, eliminated the Nazis from the African continent and broken their control over the Mediterranean. At the same time it has freed the Western Hemisphere from invasion and conquest.

Pushed back into Europe, Germany faces a vital and potent Russia on one side, a determined, victorious Britain on the other, an aggressive and resourceful United States stimulated by the success of its first major encounter with the Axis on another, and the French renewed and refreshed, ready to win back their beloved homeland.

Under such circumstances it seems that the great and overwhelming armies for the defeat of Hitler in Europe already exist and that we should be free to serve our own best interests. The support of our British and Russian allies should be made available to us now for this purpose. Gestures are not enough nor promises of aid in the future.

As sophisticated human beings we know the value of resting our faith in the promises of other men whose interests coincide with ours only temporarily. As Madame

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Chiang Kai-Shek says "God helps those who help themselves," and I might add "and put their faith in Him alone."

Man's mind is like the shifting sands and full of subtleties veering with the wind. Even in a short time since the battle of Africa, we have seen the evidences of a change of heart on the part of many who up to that time were echoing the call for freedom and independence for all.

Russia's contribution rests mainly on Russian necessity. She can no longer stand aloof from our problems in the Pacific.

Joseph Stalin's dissolution of the Internationale cannot be accepted as a contribution of substantial value to our cause. It is plainly an expedient and cuts both ways. It was designed to quiet agitation against communistic infiltration in our country and to lessen the fears of Russian domination in Eastern Europe. Whether it will do so or not remins to be seen. Russia will have to follow up this pronouncement with action that will show her real intentions.

What we would like to see is Russian willingness to support and ease our way in the Pacific. Here, the strategy and the decision must be ours and in exchange for continued aid to Britain and Russia we should be free to call for and receive the cooperation that we feel necessary for our purpose. Regardless of Mr. Churchill and Mr. Stalin, we should not be called upon to wait until the war in Europe has been settled.

With the lessons of the last war still fresh in our minds, our conduct of affairs should show that we have grown to maturity since that time. Such a realization will not only ensure the respect of our allies but would bring with it the cooperation which we can call for as our right.

This is the time for us to bring matters to a head, while the United States is still in a position to contribute enormously to the realization of our allies' objectives.

Another Look At . . .

(*Continued from page* 195)

bank debt last June. $1.20 was paid on the common in 1941 and 1942 and is expected to be continued this year. On this basis, the stock currently yields only about 3% which is rather unsatisfactory. Under the circumstances, it might be advisable to realize the substantial percentage profit so far accrued and switch into an equity combining future prospects with more adequate current returns.

Which Companies Are Building Up Equity Values?

(*Continued from page* 177)

its meaning as an investment criterion, what with the frequent practice of inflating plant accounts to bolster assets. More recently, the trend has been exactly in the opposite direction; valuation of plant account has become increasingly conservative as liberal depreciation charges and write-offs were encouraged by high war-time earnings and the desire to reduce tax liability as much as possible. Similarly, the working capital position in many instances has been placed on a more solid basis by the creation of inventory reserves. Past experience, especially after World War 1, shows how important this may be as once more, when the war ends, many a company will find itself with assets largely in the form of inventories, subject to possible severe price deflation. This danger is well recognized and apart from urging Government relief to obviate it, those companies susceptible to it are endeavoring to make adequate provision against such an eventuality. Bethlehem Steel for instance, wrote down its inventory by sixteen millions as a precaution against price declines.

Every deflation period, and the post-war cycle may ultimately have a severe one, reveals a crop of sound companies which have lost their cash differential as against their competitors for lack of a conservative inventory policy. It is gratifying to note that industry as a whole is ever more conscious of this danger and prepared to meet it. For the investor, it is a relatively easy matter to identify those companies which by fostering liquidity now, are smoothing their future path. Growing assets and increasing stockholders equity rather than lush dividends tell the story. Assets, of course, are sometimes elusive things, and so is the stockholders' equity when subjected to erosive stresses such as may occur after the war. Their existence, however, is still the best guarantee for survival under adverse conditions, and for really worthwhile progress when circumstances are propitious.

Comment on Stocks In the News

(*Continued from page* 189)

of the potentialities unquestionably inherent in this stock.

* * *

The hardships of present-day merchandising are aptly illustrated in the first quarter report of Montgomery Ward showing net profit of $3,588,554 equal to $0.62 per share compared with $5,180,651 or $0.93 per share in 1942. The latter was after setting aside an inventory reserve of $2.40 millions. This showing reflects the difficulty if not inability to obtain the many "hard goods" lines which formerly made up a substantial part of the company's sales volume. Rising costs and wages, together with price ceilings were contributing factors. Moreover, "soft lines" are increasingly difficult to obtain. Without considering the inventory reserve deducted from last year's income, there was an absolute drop in net of over 50%. While there is reason to hope that for the entire year, the decline will average less, the company's earning power is bound to be severely affected for the duration of the war.

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